

IMPACT OF DIVIDEND POLICY ON MARKET PRICE OF STOCK
(Study of Manufacturing and Financing sector)

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VIVA-VOCE SHEET

We have conducted the viva –voce examination of the thesis presented

by

Urmila Thapa

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And found the thesis to be the original work of the student and written

According to the prescribed format. We recommend the thesis to

be accepted as partial fulfillment of the requirement for the

Master Degree of Business Studies (M.B.S.)

Viva-Voce Committee

Chairman, Research Committee

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**IMPACT OF DIVIDEND POLICY ON MARKET PRICE OF STOCK**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of Mr. Achyut Gyawali, Central Department of Management.

Date:

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Urmila Thapa
Researcher

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ACRONYMS USED

AFC	-	Annapurna Finance Company Limited
B.S.	-	Bikram Sambat
BNL	-	Bottlers Nepal Private Ltd.
Co.	-	Company
CV	-	Coefficient of Variation
DF.	-	Degree of Freedom
DPR	-	Dividend Payout Ratio
DPS	-	Dividend Per Share
DYR	-	Dividend Yield Ratio
EFR	-	Required External Fund
EPS	-	Earning per Share
EYR	-	Earning Yield Ratio
FY	-	Fiscal Year
HMG	-	His Majesty's Government
HMG/N	-	His Majesty's Government, Nepal
KFC	-	Kathmandu Finance Company Limited
Ltd.	-	Limited
MANU	-	Manufacturing
MPS	-	Market Price Per Share
NEPSE	-	Nepal Stock Exchange
NRB	-	Nepal Rastra Bank
P/E Ratio	-	Price Earning Ratio
PE	-	Probable Error
Rs.	-	Rupees
SD	-	Standard Deviation
SEBO/N	-	Security Exchange Board, Nepal
UNL	-	Unilever Pvt. Ltd.

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Dividend policy is an integral part of financial decision. The dividend policy is a major decision for the board of directors as the board of directors has to decide between paying out to shareholders and keep them happy in the short run or retain for investment which may be more beneficial to the shareholder in the long run. Dividend policy determines the division of earning between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financial corporate growth, but dividends constitute the cash flows that accrue to stockholders. Dividend can be distributed to shareholders by a company in form of cash, shares or both. Some companies paid dividend whole amount of profit as dividend for good image, some retained all amount for reinvestment and some partially paid the amount as dividend.

In Nepal, there are few numbers of companies which pay stable dividend. Other are not stable in the payment of dividends and some companies which are not paying any dividend because they have lack of profit. In case of joint venture commercial banks they are paying dividing to attract the investors and they are the leading companies in the capital market as their number of transactions and market price per share is usually high. They bring the new trend to distribute the dividend, which encourage the investors to invest in the companies and mobilize the fund.

1.2 Dividend Policy and its Effects on Market

The policy of company on the division of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. Due to the issue of shares to the shareholders, dividend policy becomes major decision of financial management. Dividend is the earning or

profit distributed to shareholders by a company. It may be in cash, shares and securities or a combination of these. Firstly the dividend should be paid; secondly management should determine how much should be paid. All aspects and questions related to the payment of dividend are contained in a dividend policy. It includes percentages, timing and method of payment of dividends. Each dividend and retained earning has a reciprocal relation if retained earnings are kept more by the company less will be the cash dividend and vice versa. The management has to choose either distributing profits to shareholders or plugging them back into the business. The decision depends upon the objective of management for wealth maximization. The firm will use the net profit for paying dividend to the shareholders, if the payment will lead maximization of the wealth of the owners. If not, it is better to retain cash for investing purpose. The relationship between dividends and value of the firm should be criterion for decision making. In the world with no taxes, Modigliani and Miller (1961) proved that dividend has no effect on shareholders wealth.

Gordon (1963) and Lintner (1962) argued that dividend policy affects the stock price as well as required rate of return. Friend and Puckett (1964) concluded that management might be able to increase stock prices in non growth industries by raising dividends in growth industries by greater retention. The marginal tax brackets impact on security prices are negatively related to dividend yield. Litzenberger and Ramaswamy (1982) tested the relationship between dividend and security returns and concluded that risk adjusted returns are higher for security returns with higher dividend yields.

The dividends and dividend policy were the subject of many studies for many years from past to present (e.g. Mancinelli and Ozkan, 2006; Amidu and Abor, 2006; Zhou and Ruland, 2006). Since dividends have an effect on stock prices and company's future growth, corporate governance should have a suitable dividend strategy. There are several dividend approaches such as stable dividends, payout ratio, and cash availability. Corporate management needs to take different variables into account before taking the decision on the how and

the when of dividend payout. Researchers follow different procedures (theoretical and/or empirical), endeavoring to highlight factors expected to have some influence on dividend payout decisions and policies. However, most of this empirical work has been focused on companies listed in markets of developed nations. Therefore the conclusions reached may not be applicable in countries with different corporate cultures and economic frameworks (Al-Twajjry, Abdulrahman Ali, September 22, 2007).

Though there are several studies in the field of dividend and stock prices in the context of developed capital market, their applicability is yet to be verified in the context of under developed capital market like that of Nepal. The present study therefore, attempts to assess the relationship between dividend and stock prices in the Nepalese context, this study aims to mobilize the fund prevailing practice and policies, relevant factors of some Nepal's listed Manufactures company and financial companies regarding the difference in policy adopted by them considering size of dividend and its impact in compare with the listed manufacturing companies.

1.3 Statement of the Problems

Shareholders make investment in equity capital with the expectation of increasing their wealth. Dividend is a kind of earnings that the shareholders expect from their investment. But the dividend decision is will a fundamental as well as controversial area of managerial function. The affect of dividend policy on market price of share is a subject of long standing arguments. But, still there is no single conclusive result regarding the relationship between dividend payment and market price of the share. There is no controversy that when a firm gets much earning, when the shareholders would expect much dividend. But earnings are also treated as financing sources for the firm. If the firm retains the earnings, its repercussion can be seen in many factors such as decreased leverage ratio, expansion of activities and increase in profit in succeeding years whereas if the firm pays dividends, it may need to raise

capital through capital market which may dilute the ownership control of existing shareholders. If the firm takes loan or raises debenture, it will affect on risk characteristics of the firm.

Dividend is most inspiring aspect for the investment in the shares of various companies for an investors, even if dividend affect the firm's value, unless management knows exactly how they affect value, there is not much that they can do to increase the shareholder's wealth. So it is necessary for the management to understand how the dividend policy affects the market value of the firm or market price of the stock or the wealth position of the shareholders.

Thus, this study seeks to answer the following question:

-) What are the prevailing practices of the Nepalese listed companies regarding their dividend policies?
-) What are the reasons behind stock price increasing after the announcement of the dividend?
-) What are the implications of dividend on market price of share?
-) What are the factors that affect the dividend and valuation of the firm?
-) Is there any consistency in EPS, DPS, MPS and DPR?

1.4 Objectives of the study

The major objective of the study will be obtained in-depth knowledge about the impact of dividend policy adopted by the selected companies to its market price of shares and the overall valuation of the firms. Other specific objectives are as follow:

-) To assess the impact of dividend on market price of share,
-) To highlight the prevailing dividend policy adopted by the listed companies
-) To analyze, examine and interpret the stock price movement of listed Manufacturing and financing companies after announcing the dividend decisions.

-) To suggest and recommend the appropriate dividend policy to policy makers and executives to overcome various issues and gaps based on the findings of the analysis.

1.5 Significance and Focus of the Study

The dividend policy is an effective way to attract new investors, retain existing investors, and make them happy as well as to maintain the goodwill and desire controlling power in the management of the firm.

In Nepal, due to lack of enough knowledge, people are investing haphazardly in the shares. There is not adequate research conducted so far to improve the situation.

Hence, it is necessary to establish clear conception about the return resulting from investing in the stocks; this thesis will help to overcome this gap to some extent and has considerable importance.

The importance of the study can be pointed out as follows:

-) This research work will provide vital information about the impact of dividend on market price.
-) This study will make suggestion and recommendation that will be helpful for further researchers, investors.
-) This study will help management and policy maker in setting and making a suitable dividend policy.
-) This study may be useful to government for policy making, controlling and monitoring.

The study is focused at assessing the prevailing practices of Nepalese listed companies regarding dividend. For that the study will concentrate on review of dividend policy of the selected companies and the assessment of the effect of dividend decision on the market price of stock and wealth position of the shareholders.

1.6 Limitations of the study

The limitations of the study are:

-) The study is mainly based on the secondary data, so the accuracy of the findings depends on the reliability of available information.
-) Due to time and resource constraint only a few listed companies of different areas of business has been taken under. Thus, the findings may not be applicable to other remaining companies.
-) Only five years period has been taken for the study (2005/06 to 2009/10 year).
-) Among the different determinants of the market price of the stock, only cash dividend stock dividend and earnings are taken for the analysis.
-) Companies hesitant to provide unpublished data it is not possible to reach at up to date conclusion. Thus these couple limitation may weaken the generalization.

1.7 Organization of the study

This study report has been divided five chapter, they consist of introduction, review of literature, research methodology, data presentation and analysis and summary, finding conclusion and recommendation.

Chapter 1: Introduction

First chapter deals with the background of the study, focus of the study, statement of problems, objectives of the study, limitation of the study and scheme of the study.

Chapter 2: Review of literature

This second chapter deal with the review of various studies conducted on dividend policy and books and journals related with this topics. This chapter will consist of general information to introduce the dividend policy and the review of books, journals and thesis related the study field.

Chapter 3: Research Methodology

This third chapter deal with contents framework and procedure of the study, it deal with research methodology used to carry out the research. It includes research design, population and sample, source and techniques of data collection, tools and techniques of data analysis

Chapter 4: Data presentation and analysis

This chapter is heart of the study. This chapter presents the main aspect of the study. It deals with data collection procedure and presentation of data with different statistical and financial tool and finding of the study.

Chapter 5: Summary, finding, conclusion and recommendation.

Last chapter deals with suggestion, which includes the summery of the main finding, conclusion and recommendation.

Bibliography appendices content list of Bibliography appendices and other supported document have also incorporated at the end of the study.

CHAPTER TWO

REVIEW OF LITERATURE

This chapter has been divided into two sections: section (a) deals with conceptual review and section (b) deals with research review.

2.1 Conceptual Review

2.1.1 About Dividend Policy and Market Price of Stock

Dividend policy is a crucial and integral part of financial management. Dividend refers a portion of earning which is distributed to shareholders in return of their investment in share capital. It may be in shares, cash, securities or combination of them. A dividend refers to that portion of firm's net earnings which are paid out to the shareholder. The board of directors must declare all dividends. Generally, corporation can only declare dividends out of earnings, although some states laws and corporate agreements permit to declaration of dividends from sources other than earnings.

While dividend policy refers to the guidelines that management uses in establishing portion of earning that is paid to the shareholders in the form of dividend. When there is mention of the dividends of the firm implicitly, the retention of the earning cannot be isolated which is just the opposite of dividend i.e. when company pays its earnings as dividend it reduces the amount of earnings to be retained in the firm. Once a dividend is declared, stockholders become general creditors of the company or firm until the dividend is not actually paid. Dividends are the foundation for the valuation of common stocks. The payment of dividend may resolve uncertainty in the minds of some. Such payments may be useful in diversification of investment in an uncertain world (De Angelo and De Angelo, 1996; p.p.341-371).

The capital structure decision of the firm may require some portion of financing needs to be raised from common equity or support fixed income

securities. Except for at the beginning, wherever the company decides to finance its needs, it has two options, sales of additional common stock or retention of earnings. When stockholder supply equity capital to the firm, they expect to share on earning of the firm. If the company pays the earning as the dividends, they are benefited directly and if the company retains in the business to finance the business opportunities, they are benefited indirectly through the increment of market price of share i.e. capital gain. In both of the case shareholders get benefit but how much should be retained in business is not a simple question. Since dividend would be more attractive to shareholders, one might not hesitate to say that dividend weight more than retention in the perception of the shareholders. But one might equally pressure that gross dividend would be reduced somewhat with an increase in net after tax dividend still available to shareholders and an increase in retained earnings for the corporation. It would be a wise policy to balance between shareholders interest with that of corporate growth from initially generated fund. If the company cannot get required rate of return by investing the funds in investment opportunities, it will be better to distribute funds so that the shareholders can invest in the more profitable project. This argument of funds plugging back into the business or distributing funds to the shareholders is an analogy to the financial management's to increase the value of the shareholders wealth or well being and that well being can measured by dividend received but more accurate measure is the market value of the stock(Pearson,1912;P.405).

“By a dividend policy we mean distribution versus retention decision rather than making the decision of the purely ad hoc basis from period to period.” On reviewing the various studies regarding dividend policy and market price of share, the following points may be outlined:

-) Dividend policies do have significance on the market price of firm because of the imperfections in market.
-) The more the profitable investment opportunities the lesser will be the dividend payout ratio.

-) Dividend decision has an informational value.
-) Dividend signals convey information without releasing sensitive details that may be useful to competitors (Paul and Mullins, 1986; P.P.35-36)

Greater the perfection availing in the stock market, the higher will be the relevancy of dividend policy over the market price. The cash dividend of the normal firm will have significant effect on the market price since the company is viewed as a firm of the future prospects and growth. The following framework will clear the relationship between the variables.

Independent Variables	Dependent Variable
Cash dividend	Market price of share
Stock Dividend	
Earnings Per Share	
Dividend Yield	
Retention Rate	

“Share valuation is an economic process, which generates rational securities prices. “Although the price fluctuation may appear to be chaotic, they are random fluctuation that results from the random arrival of the new information” (Francis, 1990; 207). Market price of the stock (MPS) is the trading price of the stock listed in authorized or legal stock exchanges. Dividend policy and MPS has always correlation, if the company pays high dividend the MPS increases and vice- versa. But in some cases out of this interrelation, the price may remain constant or decrease too. Therefore, the information lack or flow is also vital in the analysis of MPS. In the context of Nepal, MPS is the price that is quoted for purchasing or selling under Nepal Stock Exchange Act or related laws and regulations on the stock exchange.

2.1.2 Dividend Payments

Management should try to maintain regular dividend. For regular dividend, the firm will have sufficient earning. Management will set a lower regular dividend rate than firms with the same average earning but less volatility. Management may also declared extra dividends in year when earnings are high and funds are available. Firms usually pay dividends on a quarterly basis in accordance with the following payment procedures:

Step-1: Declaration date

This is the date when a company announces for the payment of dividend. If actual dividend is less than the expected dividend stock price will decrease on the date. If actual dividend is higher than expected dividend, stock price will increase and there will be no change in stock price when actual and expected dividends are equal. At this time, they set the amount of the dividend to be paid, the holder-of- record date and the payment date: (Thapa and Koirala, 2006; P.8.1)

Step-2: Holder-of- record date

This is the date for the recording of the names of shareholders on the book of company. Only the shareholders will receive the dividend if their names are mentioned in the book on holders of recorded: (Thapa and Koirala, 2006; P.8.2)

Step-3: Ex-dividend date

This is the due (last) date for the purchase of share in secondary market. So that the name of new buyer can be recorded in the book of company within holders of recorded and dividends can be received. After this date, market price of stock decreases.

Stock price after cash dividend = $P_s - DPS$

Stock price after stock dividend = $P_s / (1 + \%SD)$

Step-4: Payment Date

This is the date from when payment of dividend actually begins as per the declaration (Ibid, 2006)

2.1.3: Schemes of dividend payment (Thapa and Koirala, 2006; p.p.8.2-8.6)

Regularity of dividends is considered as a desirable policy by the management of companies. Most of the shareholder also prefer stable dividend because all other things being the same, stable dividends have a positive impact on the market price of the share. Commonly used payment schemes are:

2.1.3.1: Fixed or constant dividend per share

This scheme is based on the payment of a fixed rupee dividend in each period. A number of companies follow the policy of paying fixed amount per share as dividend every period within considering the fluctuation in the earnings of the company. This policy doesn't imply that the DPS or DR will never be increased. Investors who have dividends as the only source of their income prefer this policy.

2.1.3.2: Constant payout ratio

The ratio of dividend to earning is known as payout ratio. When fixed percentage of earnings is paid as dividend in every period, the policy is called constant payout ratio. It ensures that dividends are paid when profits are earned and avoided when it incurs losses.

2.1.3.3: Low regular dividends plus extras

This scheme is a compromise between a stable dividend or stable growth rate and a constant payout rate. Such a policy gives the firm flexibility, yet investors can count on receiving at least a minimum dividend. It is often followed by firms with relatively volatile earnings from year to year. The low

regular dividend can usually be maintained even when earning decline and extra dividends can be paid when excess funds are available.

2.1.3.4: Residual Dividend policy

This policy is based on the premise that investors prefer to have a firm retain and reinvests earning rather than pay them out in dividends if the rate of return the firm can earn on reinvest earning exceeds the rate of return investors can obtain for themselves another investments of comparable risk. A firm follows four steps under this policy:

1. Determine the optimal capital budget
2. Determine the amount of equity required to finance the optimal capital budget given its target capital structure, recognizing that the funds used will consist of both equity and debt to preserve the optimal capital structure.
3. To the extent possible, use retained earnings to supply the equity required.
4. Pay dividend only if more earnings are available than are needed to support the optimal capital budget

If a firm rigidly follows the residual dividend policy, then dividends paid in any given year can be expressed as follows:

Dividends = Net income – (Target equity ratio | Total capital budget) (Thapa, 2006; p.p.8.1-8.3).

2.1.4 Forms of Dividend

According to changing needs of corporations, dividend is being distributed in several forms. The types of dividend that corporations follow is partly a matter of attitude of directors and partly a matter of shareholder's preferences, and also depending on the various circumstances and financial constraints that bound corporate plan and policies. They are as follows:

2.1.4.1: Cash Dividend

The dividend distributed to the shareholders in cash out of the earnings of the firm is called cash dividend. The distribution of cash dividend decreases both total assets and net worth of the company and earnings of the firm also. The market price of the share drops in most cases by the amount of the cash dividend distributed. Such dividend enhances liquidity problem in corporation. When the company or firm follows stable dividend policy they used to prepare cash budget to indicate the necessary funds which would be needed to meet regular dividend payment of the company. The MPS after cash dividend is calculated as follows:

MPS after cash dividend = market price per share before cash dividend – Dividend per share.

2.1.4.2: Stock dividend or Bonus share

The company distributor shares as dividend to the shareholder's is called stock dividend. It occurs when the board of directors authorizes a distribution of common stock to existing shareholders. Stock dividend increases the number of outstanding share of the firm's stock. Under stock dividend stock holders receive additional shares of the company in lieu of cash dividend. It doesn't affect the ownership of the company. This dividend is distributed either firm past retained earning or from net profit earned in the respective year. The share price of stock dividend is fixed at market price at the firm of dividend declaration. But, it is noticed that Nepalese corporate firm fixed price per share at par value as indicated by the company Act.

2.1.4.3: Bond dividend

The dividend distributed to the stockholders in the form of bond is called bond dividend. The intention and purpose of this dividend is the

postponement of dividend payment for some time and to enhance the liquidity.

It has the following features:

-) Bond dividend is the means to dividend postponement for a while but more it is obligation.
-) It could not bring back the psychological value as the cash dividend.
-) Scrip has relatively less maturity time than bond dividend.

2.1.4.4: Scrip Dividend

The company's cash position is temporarily weak and doesn't permit cash dividend, it may declare dividend in the form of scripts. Under this, company issued and distributed to shareholders transferable promissory notes, which has the definite maturity date and interest bearing or not. Scrip dividends are justified only when the company has really earned profit and conservation of other current assets into cash in the course of operation. It has the following natures:

-) It is the replacement of the dividend for short period.
-) It may be either interest bearing or not.
-) It doesn't change the total number of the stock but issued promissory note in the proportion of share held by the stockholders.
-) It has relatively low psychological value in the stockholders perception than other forms of the dividend.

2.1.4.5: Property dividend

The company pays dividend to the stockholders in the form of the assets is called property dividend. Assets which are superfluous for the company are distributed as dividend to the stockholders. It is least used practice in Nepal and used when odd situation exist. It may have the following natures:

-) Perception value of the property dividend can't be as same as cash dividend

-) It should match the requirement of shareholders or it reduces the charming of cash dividend replacement.
-) It is very least applied means to dividend; therefore sometimes it may have positive response of the investors.

2.1.4.6: Stock split

Stock split is the process of breaking down the existing number of shares into more shares. It is a way of increasing number of shares by decreasing par value of the shares. The company may double, triple or quadruple the number of shares outstanding .The main objective of stock split is to increase liquidity of the stock and to maintain the goodwill of the firm in the market. The effect of a stock split is an increase in the number of shares outstanding and a reduction in the par value of the shares. It has no effects on the additional paid in capital, retained earnings, total amount of common stock and stockholder's wealth. Therefore some company split the stock to believe that their stock should be inexpensive so some people can buy it. This creates a condition where more of the company's stock is bought and sold.

2.1.4.7: Reverse split

A method that is used to raises the market price of a firms stock by exchanging certain number of outstanding shares for one new share of stock. The effect of a reverse split is a decrease in the number of shares outstanding and an increase in the par value of the shares. The total net worth of the firm remains unchanged. The reverse split does not involve any cash payment only additional certificates representing new shares. It is used to stop the market price per share below a certain level.

2.1.4.8: Stock repurchases

Repurchase of stock is the act of buying back outstanding shares by a firm. The repurchased stock is called treasury stock. A firm repurchases its shares when it has excess liquidity and there is no good opportunity for new

investment. Stock is repurchasing also to increase market price per share. A firm can repurchase shares as open market basis, Tender basis and offer basis. A certain price is offered for repurchase which is more than current market price. “The price at which all shareholders are equally benefited is called equilibrium repurchase price, the stock price must rise after the repurchase if the price earnings ratio remains unchanged, if a firm has excess cash and insufficient investment. Opportunities to justify the use of these funds it is in the shareholders interest to distribute the funds of distribution can be accomplished either by the repurchase of stock or by paying the funds are in increased dividends.” Thus corporate repurchase of stock is considered as an alternative to payment of dividend. A repurchase is a signal that manager who possess an inside knowledge of the firm are convinced that their stock is worth more than its current price. Their assurance is strong enough to pay a premium for the Stock regardless of the risk dilution if they are wrong (Bhattari, 2006; p.196).

2.1.5 Factors affecting dividend policy

Many considerations may affect a firm’s decision about its dividends; some of them are unique to that company. Dividend is that decision which is influenced by many internal factors. Firm has to consider both economic and non-economic factors before establishing any dividend policy. In practice, the financial executives consider the following factors:

1. Desire of shareholders

Management usually knows the desires of shareholders. So, they can easily adopt a dividend policy that satisfies all shareholders. Shareholders may be wealthy shareholder who is interested in capital gains as against current dividends. A retired and old person shareholder is interested in to get regular dividend. So number of shareholders is very large and they have diverse desires regarding dividends and capital gains.

2. Liquidity position

The cash or liquidity position of the firm influences its ability to pay dividends. A firm may have sufficient retained earnings, but if they are invested in fixed assets, cash may not be available to make dividend payment. Thus, the company must have adequate cash available as well as retained earnings to pay dividends.

3. Need to repay debt

When a firm has issued debt to finance expansion or to substitute for other form of financing it is faced with two alternatives. It can refund the debt at maturity by replacing it with another form of security or it can make provision of paying off debt. If the decision is to retire the debt this will generally require the retention earning. In such case also the dividend decision will be affected (Weston and Copeland, 1990; P.659).

4. Restrictions in Debt contracts.

The protective covenants in bond indenture or loan agreement often include a restriction on payment of dividend. The restriction is employed by the lenders to conserve the company ability to service debt. Generally it is articulated as maximum percentage of earning. Similarly preferred stock agreement generally state that no cash dividend can be paid on the common stock until all accrued preferred dividends have been paid.

5. Rate of asset expansion

A high rate of asset expansion creates a need to retain funds rather than to pay dividends.

6. Profit Rate

The expected rate of returns on assets determines the relative attractiveness of paying earnings in the form of dividend to the shareholder.

7. Stability of Earning

A firm that has a stable earnings trend will generally pay a larger portion of its earnings in dividends. If earnings fluctuate significantly a larger amount of the profits may be retained to ensure that enough money is available for investment projects when needed.

8. Tax position of shareholders

This also affects dividend policy. Corporations owned by largely taxpayers in high income tax brackets tend towards lower dividend payout where as corporations owned by small investors tend toward higher dividend payout.

9. Control

For many firms like small and large, maintaining the controlling vote is very important. These owners would prefer the use of debt and retained profits to finance new investments rather than issue new stock. As a result dividend payout will be reduced.

10. Access to the capital markets

A firm's access to capital markets will be influenced by the age and size of the firm, therefore a well established firm is likely to have a higher payout ratio than a smaller, newer firm.

11. Concern about market price

To the extent that there are insights into the effects of dividend on valuation, they may be gathered. If a firm concern about maintaining or increasing stock prices it may elect to pay dividends.

12. Inflation

Inflation also play deceive role in dividend decision. In price rise, the company may have to retain high percentage of earning because of inadequate funds generated from depreciation to replace equipments.

13. Legal Restrictions

Legal rules constrain dividend payment on certain conditions as follows: Capital impairment rule state that dividend should not be paid out of paid-up capital which cause adverse effect on security of creditors preference shareholders.

-) The firm should not pay cash dividend greater than the current net profit plus accumulated balance of retained earning. Accumulated loss should be recouped out of current earning. This rule is violated by some Nepalese companies due to management intention and government intervention.
-) Insolvent firms is liabilities exceeding assets or unable to pay bills are prohibited for paying cash dividend to protect creditor of the firm.
-) If the firm has retained earning to provide opportunity to shareholders for capital gain and there by evade tax liability of income under such condition the firm may be forced to pay dividends (Ibid, 1990).

2.1.6 Legal Provisions regarding dividend practices in Nepal

In Nepal, the Nepal Company Act-1997 has made some legal provisions regarding dividend payment. These provisions are under:

-) Section two (M) states that “bonus shares (stock dividend) means shares issued in the form of additional shares to shareholders by capitalizing the surplus from the profits or the reserve fund of a company. The term also denotes an increase in the paid up value of the shares after capitalizing surplus or reserve funds”. (Nepal Company Act, 2053; P.43)
-) Section 47 has prohibited company from purchasing its own shares. This section states that no company shall purchase its own shares or supply loans against the security of its own shares.
-) Section 137 Bonus share and sub section (1) states that the company must inform the office before issuing bonus shares. Under sub section

(1) this may be done only according to a special resolution passed by the general meeting.

Section 140 dividends and sub section of this section are as follows.

Sub section (1) except in the following circumstances dividend shall be distribute them

- In case any law forbids the distribution of dividends
- In case the right to dividend is disputed
- In case dividends cannot be distributed within the time limit

Mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company

) Subsection (2) In case dividend are not distributed within the time limit mentioned in sub section (1) this shall be done by adding interest at the prescribed rate.

) Sub section (3) only the person whose name stands registered in the register of existing shareholders at the time the dividend shall be entitled to.

2.1.7 Information content of dividend

Dividend decision has informational value. The payment of dividends conveys the shareholders that the company is profitable and financially strong. An increase in payout ratio implies a permanent or long-term increase in firm's expected earnings. Solomon contends that dividend may offer tangible evidence of the firm's ability to generate cash and as a result the dividend policy of the firm affects the share price. He states that “In an uncertain world in which verbal statements can be ignored or misinterpreted dividend action does provide a clear-cut means or ‘making a statement’ that speaks louder than a thousand words”(Solomon,1963;p.142).

“Dividend action has a financial signaling.” Financial signaling implies that dividends may be used to convey information. That information rather than

the dividend itself affects valuation. It has often been pointed out that a company raises its stock price and that a company lowers its dividends do matter, they affects stock price. But this causal relationship has been refuted by several researchers on the grounds that dividends do not affect stock prices; rather it is the informational content of dividends that affects stock prices. Thus there should be no direct link between dividend and stock prices (Rao, 1992; p.568)

Ross (1977) and Bhattacharya (1979) have argued that dividend policy could be viewed as a signaling mechanism whereby firms with profitable projects are able and willing to pay bigger dividends in order to segregate themselves from firms with less profitable projects (R.H and Ramaswamy, 1980; p.470).

2.2 Review of Major studies

Previous research is the study of past research that was conducted by previous researchers in selected area or topic of dividend policy and stock prices. The purpose of review is to find out what research studies have been conducted in the chosen field of study and remains to be done. It provides the base for developing comprehensive theoretical framework from which hypothesis can be developed for testing. Research review can be done by consulting library where there are all kinds of published materials including thesis, article, journals, and business report and so on.

Various studies have been made concerning the dividends and stock prices. Some of the major international studies relating to the dividends are stated as below.

2.2.1 Joseph & Itzhok's Study

These two people had focused on two devices, which are used widely in the firms. The manager poses inside information about their firm's future

prospects and for that purpose various signaling devices are used and information conveyed to the public. As mentioned above, the two devices are:

i) Earning

ii) Dividend

The information content of dividend hypothesis asserts that managers use each cash dividend announcement to signal changes in their expectations about future prospects of the firm. The concentration about information broadly emphasized on the hypothesis that, since dividend decisions are almost solely at management's discretion, announcement of dividend changes should provide less ambiguous information signal than earnings numbers, if dividend convey useful information to the public, the same effect can be seen in stock prices which are changed after public announcement. The main focus of this study is to ascertain whether dividend changes provide information beyond that already provided by quarterly earning numbers. These two people believe dividend and earnings have signal effect in the practice and thinking of people with regards to the future prospects of the firm.

They have explained their arguments through data collection and analysis. For their purpose, they had grouped the sample data according to the dividend changes from one quarter to the next and by the number of trading days between earnings and dividend announcement date in any given quarter.

The sample includes 2612 dividend announcement that follow (Panel A) and 787 that precede (Panel B) quarterly earnings announcement by 11 trading days among these:

384-increased

47- Decreased

2968- Case of no change in dividend

Panel A

-) This includes those companies which announce dividend with no changes.
-) Stockholders of such companies earned on average.
-) The cumulative effect of the abnormal returns during this period is of small magnitudes.
-) The average return do not defer significantly from zero.
-) These results are similar whether earnings announcement precede or follow dividend announcement.

Panel B

-) Shareholder of the companies that announced increases realized on average.
-) Positive abnormal returns over the 20 days surrounding announcement dates.
-) Most of the statistically significant abnormal returns occurred during days A.D.-1 & A.D.1.

Moreover, they are of similar magnitude for both groups whether earnings announcement precede or follow dividend announcement. Therefore, one noticeable result is that abnormal returns for the decreases occurred during the day A.D.-1 and A.D.1 and they are of similar magnitude for both groups. The capital market reaction to dividend announcement like this support the information content of dividend hypothesis namely that changes in quarterly cash dividends do provide information about changes in managements' assessment of future prospects of the firm.

The study also focuses or emphasizes the quarterly dividend announcement contain useful information beyond that already provided by quarterly earning numbers. Both writers believe that ever earning announcement also affect the market price of the share. For this purpose, stock prices just before and after announcement were taken to analyze. In the same

way, our practice is also none other than, “Announcement of increase in earnings causes increase in market price of the share and vice-versa.”

2.2.2 Walter's study (James E. Walter)

James E. Walter conducted a study on dividend and stock prices in 1966. He proposed a model for share valuation. According to him, the dividend policy of the firm affects the value of the share. So, the dividends are relevant. He argues that the choice of dividend policies already affect the value of enterprise.

His study shows clearly the importance of the relationship between internal rate of return(R) and cost of capital (k) in determining the dividend policy.

The assumptions of the Walter's model are as follows:

- i. The firm finances all investment through retained earnings. The external funds (i.e. debt, equity) are not used for new investment.
- ii. All earning on the firm's investment(R) and cost of capital (K) are constant.
- iii. All earnings are either distributed as dividend or reinvested internally.
- iv. The values of EPS and DPS are assumed to remain constant forever in determining a given value.
- v. The firm has a perpetual or infinite life.

Based on these above assumptions, Walter has given following formula for the valuation of equity share.

$$P = \frac{DPS}{K_e} + \frac{r}{K_e} \frac{EPS}{K_e}$$

Where,

P = market value of an equity share (market price per share)

DPS = dividend per share

EPS = earning per share

R = earning per share

K_e = cost of capital or capitalization rate

According to Walter's model, the optimum dividend policy depends on the relationship between the firm's internal rate of return (r) and its cost of capital (k). Walter referred different dividend policy for different types of the firm, which can be summarized as follows.

Growth firm ($r > k$)

Growth firms are those firms, which expands rapidly. Because of investment opportunities yielding return (r) is higher than the opportunity cost of capital (k). So, firms having $r > k$ is referred as growth firms which are able to reinvest earnings at a rate, which is higher than the rate expected by shareholders. They will maximize the value per share if they follow a policy of retaining all earnings for internal investment. Thus, the correlation between dividend and stock price is negative, and the optimum payout ratio for a growth firm is zero. The market value per share (p) increases, as payout ratio declines.

Normal firm ($r = k$)

If the internal rate of return is equal to cost of capital, the dividend payout does not affect the value of share, i.e. dividends are indifferent from stock prices. In other words, there is no role of dividends on stock prices. Such a firm can be called as a normal firm. Whether the earnings are retained or distributed as dividend, it is a matter of indifferent dividend payout ratio from zero to 100. Thus, there is no unique optimum payout ratio for a normal firm. One dividend policy is good as other and the market value per share is not affected by the payout ratio where $r = k$.

Declining Firm ($r < k$)

If the internal rate of return (R) is less than cost of capital (k), it indicates that the shareholders can earn a higher return by investing elsewhere. In such a case for maximizing the value of shares, dividend also should be

maximized. By distributing the entire earning as dividend, the value of share will be at optimum value. In other words, the market value per share of a declining firm with $r < k$ will be maximum when it does not retain earnings at all. The relation between dividends and stock price is positive. The optimum payout ratio for a declining firm is 100 percent and the market value per share increases as payout ratio increases when $r < k$.

Criticism of Walter's Model:

) No external financing:

This model is based on assumption that the investment opportunities of the firm are financed by retained earnings finance the investment opportunities of the firm only no external financing i.e. debt or equity is used for the purpose. When such a situation exists, either the firm's investment or its dividend policy or both will be sub-optimum (Francis, 1972; p.347).

) Constant rate of return (R) and opportunity cost of capital (K)

This model assumes that rate of return (R) and opportunity cost of capital or discount rate (K) are constant. In fact, rate of return (R) changes with increase and decrease of investment. i.e. R decreases as more investment occurs and cost of capital (K) changes directly with the risk borne by the firms (Walter, 1966; p.p.29-41).

2.2.3 Gordon's Study (Myron J.Gordon)

Myron Gordon has developed another popular and important model relating to the stock valuation using the dividend capitalization approach. Gordon concludes that dividend policy does affect the value of shares even when the return on investment and required rate of return are equal. He explains that investors are not indifferent between current dividend and retention of earnings with the prospect of future dividends, capital gain and both. The conclusion of this study is that investors have a strong preference for

present dividends to future capital gains under the condition of uncertainty. It is assumed that current dividend is less risky than the expected capital gain. His argument stresses that an increase in dividend payout ratio leads to increase in the stock price for the reason that investors consider the dividend yield is less risky than the expected capital gain.

Gordon's model is also described as "a bird in hand argument". It supports the argument which is popular known as a bird in hand is worth two in the bush. What is available at present is preferable than what may be available in the future. That is to say current dividends are considered certain and riskless. So it is preferred by rational investors as compared to deferred dividend in future. The future is uncertain. The investor's would naturally like to avoid uncertainty. Therefore, the current dividends are given more weight than expected future dividend by the investors. So the value per share increases if dividend payout ratio increases. This means there exist positive relationship between the amount of dividend and stock prices.

Basic assumptions of this model are as follows:

- i. The firm uses equity capital only.
- ii. Internal rate of return(r) and cost of capital (Ke) are constant.
- iii. The firm and its stream of earnings are perpetual.
- iv. There is no tax on corporate income.
- v. The retention ratio (B) once decided upon is constant. Thus the growth rate, (g = br) is constant forever.
- vi. "Ke" must be greater than g (= br) to get meaningful value.
- vii. The source of financing for new investment is only retained earning. No external financing is available.
- viii. Gordon's model is also known as "growth model". The formula for finding out the market value per share, proposed by Gordon is given below.

$$P = \frac{E_1}{K_e} \times \frac{1 - b}{1 - br} = \frac{E_1}{K_e} \times \frac{1 - b}{1 - g}$$

Where,

P = price of share/market value per share

E = earning per share

b = retention ratio/percentage of retained earning

1-b = dividend payout ratio (i.e. percentage of earning distributed as dividend)

Ke = capitalization rate/ cost of capital

br = g or growth rate in r, (i.e. rate of return on investment of all equity firm)

Case1: Growth firms($r > k$)

In the case of growth firm, the value of a share will increase as the retention ratio increases and the value of the share will decrease as the retention ratio will decreases .i.e. high dividend corresponding to earnings leads to decrease in share prices and low dividend corresponding to earning leads to increase in share prices. So, dividends and stock prices are negatively correlated in growth firm.

Case 2: Normal firm($r = k$)

Dividend payout ratio does not affect the value of share in normal firm. In other words, share value remains constant regardless of changes in dividend policies. It means dividend and stock price are free from each other in normal firm.

Case 3: Decline firm($r < k$)

In this case share price tends to enhance with increase in payout ratio or decrease in retention ratio. So, dividends and stock prices are positively correlated with each other (Gordon, 1962; p.p.450-467).

2.2.4 Chawala and Srinivasan's Study (Deepak Chawala and G.Shrinivasan, 2004)

They studied the impact of dividend and retention on share price. The followings were the prime objectives of their study.

- i. To test the hypothesis of dividend and retained earnings.
- ii. To estimate a model to explain share price, dividend and retained earnings relationship.
- iii. To examine the structural changes in estimated relations over time.

In order to achieve these objectives, they used simultaneous equation model as developed by Friend Puckett (1964). The following was the model in its unspecified form.

1. Price Function

$$P_t = \alpha + \beta_1 D_t + \beta_2 R_t + \beta_3 (P/E)_t + \epsilon_t$$

2. Dividend Supply Function,

$$D_t = \alpha + \beta_1 E_t + \beta_2 D_{t-1} + \beta_3 (P/E)_t + \epsilon_t$$

3. Identity

$$E_t = X D_t + \Gamma R_{ts}$$

Where

P=market price per share

D=dividend per share

R=retained earning per share

E=earning per share

$(P/E)^1$ = deviation from the sample, average price earning ratio

T=subscript for time

As per the financial theories they expected the coefficient of both dividend and retained earnings to be positive in the price equation. Similarly in the dividend supply function, they also expected a positive sign for current earnings and previous dividend.

They selected 18 chemicals and 13 sugar companies to estimated cross-sectional relationship for the years 1969 and 1973. They collected the required

data from the official directory of Bombay stock exchange. They used two stages least square technique for estimation. They also used lagged, earnings price ratio instead of lagged price earning ratio i.e. P/E (t-1).it was found from the result of their two stages, least square estimation that the estimated coefficient had the correct sign and the coefficient of determination of all the equations were very high in case of chemical industry. It implies that the stock price and dividend supply variation can be explained by their independent variables. However, in case of sugar industry, they found that the sign for retained earning is negative in both years and left for further analysis of sugar industry. It was observed that the coefficient of dividend was very high as compared to retained earnings for chemical industry. They also found that coefficient of dividend was significant at one percent level in both years where as coefficient of retained earnings was significant at ten percent level in 1969 and one percent level in 1973.

Finally, they concluded that dividend hypothesis holds well in the chemical industry. Both dividend and retained earnings significantly explain the variation in share price in chemical industry. They also stressed that the impact of dividend was more pronounced than that of the retained earnings but the market has started shifting towards more weight for retained earnings (Chawala and Srinivasan, 1987; p.p.137-140)

2.2.5 Twaijry and Ali's Study, (Al-Twaijry, Abdulrahman Ali, 2007)

Dividend policy and dividend payout ratios have occasioned a large volume of research and are still attracting researchers. The great majority of the studies on this subject, however, were based on developed markets, especially those of the USA. and Europe, and little concern was given to less developed nations. Some studies, for example Lintner (1956), Baker et al. (1985), Pruitt and Gitman (1991), Benartzi et al. (1997), Baker and Powell (2000), investigated the possible effect of past dividends on future earnings and/or dividends. Some other researchers focused on the effect of investment

decisions of firms (Fama, 1974), industry classification (Baker, 1988), capital adequacy (Dickens et al., 2002), and the ownership structure of companies (Mancinelli and Ozkan, 2006) on dividend policy. Baker et al. (2001) based their research on a survey of NASDAQ-listed firms to test twenty-two different factors that might influence the dividend policy. The analysis of the survey questionnaires showed that the most important determinants of dividend strategies are:

-) The pattern of past dividends;
-) Stability of earnings; and
-) Current and expected future earnings.

2.3 Review of journals articles in the Nepalese perspective:

2.3.1 Pradhan's Study, (Radhe Shyam Pradhan, 1993; p.p.23-49)

He conducted the study of stock market behavior in Nepal in 1992 collecting the data from 17 enterprises covering the year between 1986 to 1990.

The objectives of this study are as follows:

- i. To assess the stock market behavior in Nepal.
- ii. To examine the relationship to the market equity, market value to book value, price earnings and dividend with liquidity, profitability, leverage assets turnover and interest coverage.

His conclusion can be listed as following:

-) Higher the earnings on the stock leads the larger the ratio of dividend per share.
-) Stock with larger ratio of dividend per share to the market price per share have higher liquidity, liquidity position of the stock, paying lower dividend is also more variable as compared to the stock paying higher dividend.
-) Stock with larger ratio of dividend per share to market price per share has higher liquidity.

-) There was positive relationship between the ratio of dividend per share to market price per share and interest coverage ratio.
-) Dividend per share and the market price per share was positively correlated.
-) Positive relationship between dividend payout and profitability.
-) Positive relationship between dividend payout and turnover ratio.
-) Positive relationship between dividend payout and interest coverage.

2.3.2 Manandhar's Study (Kamal Das Manandhar, 1998; p.p.15-20)

Manandhar conducted a study to test whether Nepalese corporate firms consider the lagged structure of dividend and different hypothesis on relationship of payment and other financial factors were tested. He carried out his study based on the data taken from 17 Nepalese corporate firms and covered the period of 1987 to 1998. The conclusions of the study are as follows.

There is significant relationship between change in dividend policy in terms of DPS and change in lagged earnings. In overall there is positive relationship between change in lagged consecutive earnings and dividend per share.

1. There is relationship between distributed lag profits and dividend
2. When change in lagged consecutive earnings is greater than zero in 65% the cases change in dividend per share.
3. There is relationship between distributed lag profits and dividend when change in lagged consecutive earnings is greater than zero in 65% the cases change in dividend per share.
4. Overall increase in EPS (t) has resulted to the dividend payout in 66.6% of the cases while in others decrease in EPS result decreases in dividend payments.
5. Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share.

6. Corporate firm do not take into account that one-year and two year lagged earnings.

In overall Nepalese corporate firm are reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information continued progress and performance, sound financial strength, favorable investment environment, lower risk, ability to maintain dividend rate and finally to increase the market price of the stocks in the stock market.

2.3.3 Ghimire (2008)

General Manager of ACE Development Bank Ltd. has explained about the procedures of establishment of financing company. After establishment of a firm, any firm has an objective of maximizing value of the firm. He gives emphasis towards the financing decision and says that it is more important towards the finance companies. He has concluded that “financing and investment decision or for that matter any decision of a firm is an outcome of a complex, equilibrium process. Therefore, there is no “one best investment policy” of all the organizations. The organizations are interested in optimizing its investment decision should formulate its investment policy taking into considerations the skilled, taste and performance of managers involved in the decision making process.”

2.3.4 Arnott and Asness’ study (2003)

These two writers have challenged the familiar wisdom. Such wisdom advocates that a higher payout ratio results in low future growth. Arnott and Asness based their study on America stock market (S&P 500) and found that higher aggregate-dividend-payout ratios were associated with higher future earning growth. Both Zhou and Ruland (2006) and Gwilym et al. (2006) supported the findings of Arnott and Asness. Zhou and Ruland examined the possible impact of dividend payouts on future earning growth. Their study used a sample of active and inactive stocks listed on NYSE and NASDAQ with positive, non zero, payout ratio companies covering the period from 1950 to

2003. The findings showed that the payout ratio mean was 0.40 while the median was 0.33. Also their reported regression results showed a strong positive relation between the payout ratio and the future earnings growth. Gwilym et al. (2006) have extended the work of Arnott and Asness to include eleven international markets, the majority of which were European. In addition to their support of Arnott and Asness' findings, Gwilym et al. (2006) found that higher payout ratios do not lead to higher, real dividend growth. From a different angle, Mancinelli and Ozkan (2006) undertook an empirical investigation of the relationship between the ownership structure of companies and dividend policy using 139 firms listed in Italian exchange. Their results suggested that the payout ratio is negatively associated with the voting rights of the largest shareholders.

These studies covered the USA and Europe markets of mainly developed nations, but a few studies endeavored to investigate dividend policy and related factors in other markets. For example, Singhania (2005), Amidu and Abor (2006) studied the dividend payout in less developed countries. Singhania studied the historical trends of dividend payout using a sample of Indian companies from Bombay Stock Exchange.

2.3.5 Fama and French (2001)

Fama and French were more concern with disappearing dividends and the disappearance's real cause (be it the change of a firm's characteristics or a lower propensity to pay). They reported that the percentage of USA publicly held companies paying dividends declined from 66.5 per cent in 1978 to 20.8 per cent in 1999, and that this decline was partially caused by the changing characteristics of firms and was partially due to just less desire. The findings of DeAngelo et al. (2004) contradicted those of Fama and French since their results, which were based on aggregate dividends from 1978, showed an increase in dividends in recent years. It should be noticed that using aggregate data can sometimes be misleading when examining the corporate dividend

trend because very large companies are more likely to dominate the aggregate results.

2.4 Reviews from the Thesis

2.4.1 Ghimire's study (Prabin Kumar Ghimire, unpublished Master Degree Thesis, T.U., 2003)

Mr. Prabin Kumar Ghimire has conducted a study on dividend policy. A comparative study between commercial banks and insurance companies through data are collected from 1995/96 to 1999/00 with three commercial banks and three insurance companies in 2002.

The main objectives of his study are

-) To examine the relationship between dividend and Market price of the stock.
-) To identify the appropriate dividend policy followed by the bank and insurance company.
-) To analyze the relationship between dividend policy decision of bank and insurance companies.

The major findings are as follows:

- 1) The average DPS and all concerned institution except NABIL and EPS of all sample institutions seem satisfactory.
- 2) The analysis of coefficient of variation shows that there is the largest fluctuation in EPS and DPS, other companies have seemed to be relatively more consistent.
- 3) The analysis of dividend payout ratio shows none of the banks and insurance companies has constant ratio each year. It is always fluctuating from year to year.

2.4.2 Bhatta's study (Prakash Chandra Bhatta, Unpublished Master's Degree Thesis, Nepal Commerce Campus; 2006)

Mr. Bhatt has conducted study on "Dividend policy and its impact of market price of the share". He has selected seven commercial banks and collects the data from the year 1996/97 to 2002/2003.

The objectives of this study are as follows:

- I. To highlight the dividend policy practices in Nepal.
- II. To identify and analysis of the variables that are affecting the dividend policy.
- III. To provide feedback to the policy makers and executives working in various commercial banks chosen for study based on finding analysis.

The major findings of this study are as follows:

- I. The average earning per share of the bank under study shows a positive result. But the coefficient of variation indicates that EPS of the banks are not stable.
- II. The average DPS shows that there is no regularity in payment of dividend.
- III. The average MPS to BVPS of the bank range between 4.22% & 2.94%.
- IV. The MPS of NABIL has positive correlation with EPS, DPS, DP, PER, &MPS to BVPS.
- V. The dividend per share is affected by EPS, retention ratio, in different banks. The extents of effect also differ in the banks.

2.4.3 Gurung's study (Dinesh Gurung, Unpublished Master's Degree Thesis, Nepal Commerce Campus; 2008)

Dinesh Gurung has conducted study on “dividend pattern in Nepal (a case study of listed commercial banks in NEPSE)” with the objectives of:

- I) To identify what types of dividend policy being followed & find out whether the policy is appropriate or not in selected commercial banks.
- II) To test the relationship between EPS & DPS; EY & DY; EPS & MPS and so on.
- III) To determine the impact of dividend on share price.
- IV) To know whether there is any uniformity among EPS, DPS & DPR of selected banks or not.

The major findings of this study are as follows:

- I) The average Earning per share of related banks are satisfactory.
- II) The dividend per share of these banks is also satisfactory.
- III) The growth rate analysis only gives the tentative idea of growing rate of dividend because the growth in dividend is not consistent and not having consistent dividend payout ratio.
- IV) Fluctuation of earning yield of NABIL has the highest in the rank but in case of NIBL and HBL are almost to close to each other.
- V) Correlation coefficient between DPS and CR is positive in all cases and the relationship is insignificant in all cases of ‘t’ test.
- VI) The correlation coefficient between earning yield and dividend yield of all banks are positive but the relationship is significant in all cases except the HBL And so on.

2.4.4 Rana’s study (Sagun Rana, Unpublished Master’s Degree Thesis, Nepal Commerce Campus; 2007)

Sagun Rana has conducted study on “dividend behavior of joint ventures banks in Nepal” with the objectives of:

- I. To highlight the dividend behavior of Nepalese joint ventures banks.

- II. To analyze the relationship of dividend with earning per share, stock price, net profit and net worth.
- III. To find out whether dividend behavior affect the market price of shares differently in different banks.
- IV. To provide valuable suggestion regarding dividend behavior (policy).

The major findings of this study are as follows:

-) Their average dividend yield of the joint ventures banks under study indicates that the dividend yield is quite high which shows the fluctuation of dividends.
-) The DPS of NBB is positively correlated with EPS, MPPS, and NP. Similarly DPR is positively related with MPPS.
-) The average price earnings ratio of joint venture banks seems to be satisfactory. Everest bank has higher P.E ratio and NBB has lowest. It indicates that investors perceive that investment in EB is more worthy. And so on.
-) Positive relationship between dividend payout and profitability.
-) Positive relationship between dividend payout and turnover ratio.
-) Positive relationship between dividend payout and interest coverage.

2.4.5 Bista's Study, (2009)

Bista recently conducted a research in **2009** entitled *"Impact of Dividend on Market Price of Shares of Selected Commercial Banks"* with the aim to highlight the various aspects of dividend policies and practices in Nepal and to analyze the variables such as DPS, DPR, dividend yield and their relation with market value. Collecting the data from secondary sources of few years from 1998/99 to 2005/06, she analyzed and made the study using financial and statistical tools. The major findings of her study are:

- a) EPS and DPS of commercial banks in average are fluctuating year by year.

- b) MPS is also in fluctuating trend since coefficient of variation of MPS for the sample banks is 28.17 which indicate the fluctuation.
- c) There is highly positive co-relation between EPS and DPS of the sample firms.
- d) There is moderate positive co-relation between EPS and MPS.
- e) There is very poor positive co-relation between DPR and MPS of the sample firms.
- f) High negative co-relation exists between dividend yield and MPS.
- g) Multiple regression analysis of MPS on EPS and DPS reveals the positive relation between of MPS with EPS and of MPS with DPS.

2.5 Research Gap

Even though numerous studies have been carried out in different part of the world covering different aspects of dividend policy including empirically tested theories, such studies were mostly based on international basis. Very few studies have been analyzed existing state of dividend policy of Nepalese companies. However, none of the study has been able to find out complete picture of how dividend policy affecting the market price of the stock in Nepalese financial market. This study tries to examine and interrupt stock price movement after announcing the dividend decision by listed companies of the Nepal. It is also tries to suggest the appropriate dividend policy to policy makers and executives.

This study will be beneficial to large mass of public who are interested to invest in Nepalese financial market as well as to the public companies, issue managers, underwriters, government organization and other parties who are interested on dividend policy directly or indirectly.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Concept

In this chapter efforts been made to present and explain the specific research design for the sake of attaining the research objective

3.2 Research design

A research design is the specification of method and procedure for acquiring the information needed. It is the overall operational pattern of framework of the project that stipulates what information is to be collected, from which sources by what procedure.

The research design of this study is analytical as well as descriptive. This study is an examination an evaluation of dividend policy and its impact on the market price of the share of various financial institutions like bank finance companies and manufacturing companies. Therefore the study is closely related with the various financial statements as well as the market price of the stock. Analytical method is used to present the information and data.

The data required for the clarity of the concept and fulfill the study objective are collected mostly from selected company's annual report and NEPSE .The standard information and modern concept is view through the journal, articles, books. The information so collected is analyzed using various standards and statistical measure. The statistical calculation has helped see if or not there is trend on the activities.

3.2.1 Population and sample

As this study is based on the data of the companies listed in NEPSE, the population is taken from only those companies which are listed, in NEPSE.

Since the topic implies the study should be done among the dividend paying and actively traded companies, the sampling has been done accordingly. The study will cover altogether four Companies consisting two from finance companies and the rest two from manufacturing companies.

The sample to be selected as follows:

From finance company:

1. Annapurna finance company ltd (AFC)
2. Kathmandu finance ltd (KFC)

From manufacturing sector:

1. Unilever Nepal private ltd (UNL)
2. Bottlers Nepal Ltd (BNL)

3.3 Methods of Data Collection

The data used in this study are from two sources, primary and secondary. However the prime focus has been given to the secondary data. The secondary data collected from, annual reports from fiscal year 2005/06 to 2009/10 magazines and bulletins of the companies under study, relevant information and data from the publication of SEBON, NEPSE, NEB, and web pages of the selected companies, beside that the indirect and informal talks, interviews with some professors, teachers and persons of related field etc. have also been made.

3.4 Analysis of Data

The analysis of data has been done according to the pattern data available. Wide verities methodology has been applied according to the reliability and consistency of data. Firstly, the collected data are presented in proper forms, grouped in various tables and charts according to their nature. Then various financial and statistical tools have been applied. And then

interpretations and explanations are made wherever necessary with the help of various statistical analyses.

3.4.1 Tools of analysis

Various financial and statistical tools have been used in the study. The analysis of data has been done according to the pattern of data. Financial tools and simple regression analysis, the multiple regression analysis and hypothetical test will mainly be the tools, of analysis. The relationship between different variable related to study topic would be drawn out using financial and statistical tools. The main, financial indicator EPS, DPS, MPS, P/E Ratio, Dividend yield. Earning yield and D/P ratio has been calculated in this research, likewise statistical tools arithmetic mean, standard deviation, coefficient of correlation and hypothetical test has been calculated in

3.4.1.1 Financial Tools:

A briefly explanation of tools used in this study is as follow:

(i) Earning Per Share (EPS)

Earnings per share are one of the factors that affect the dividend policy and stock price of a firm. EPS calculation has been helpful to know whether the firm's earning power on per share basis. If EPS is greater the dividend has been larger and so, it assumes as independent variables to determine the dividend and market price of stock. It is calculated by dividing the earning share outstanding.

Symbolically,

$$\text{EPS} = \frac{\text{Earnings available to common shareholder}}{\text{No. of common stock outstanding}}$$

(ii) Dividend per Share (DPS)

The earning distributed to the shareholders out of EPS is known as DPS. It also affects the market price of stock. If EPS is greater, DPS has been greater. It is calculated by dividing total dividend to equity shareholders by the total number of the equity shares.

Symbolically,

$$\text{DPS} = \frac{\text{Totals dividend to ordinary shareholders}}{\text{NO. of common stock outstanding}}$$

(iii) Dividend payout Ratio (DPR)

DPR reflects what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the company. It is calculated by dividing the DPS by the EPS.

Symbolically,

$$\text{DPR} = \frac{\text{Dividend per share (DPS)}}{\text{Earning per share (EPS)}}$$

(iv) Earning yield Ratio (EYR)

This ratio shows the relationship between earning per share and market value per share. It is calculated by earning per share by market value per share.

Symbolically,

$$\text{EYR} = \frac{\text{Earnings per share (EPS)}}{\text{Market price per share (MPS)}}$$

(v) Dividend yield Ratio (DYR)

This ratio shows the relationship between dividend per share and market value per share.

Symbolically,

$$\text{DYR} = \frac{\text{Dividend per share (DPS)}}{\text{Market price per share (MPS)}}$$

(vi) Price Earning Ratio (P/E Ratio)

This ratio reflects the market value per share for each rupee of currently reported EPS. IT is calculated by dividing the market value per share.

Symbolically,

$$\text{P/E Ratio} = \frac{\text{Market price per share (MPS)}}{\text{Earning price per share (EPS)}}$$

3.4.1.2 Statistical Tools:

A brief explanation of statistical tools used in this study is as follow:

(i) Arithmetic Mean (\bar{X})

The most popular and widely used measure of representing the entire data by one variable is the arithmetic mean. The arithmetic mean is the sum of total values to the number of observation in the sample. It represents the entire data which lies almost between the two extremes. For this reason an average is frequently referred to as a measure of central tendency.

Symbolically,

$$\text{Mean } (\bar{X}) = \frac{\text{Sum of total value (SX)}}{\text{No.of values (N)}}$$

(ii) Standard deviation (σ)

The measurement of scatter need of the data of figure in a series about an average is known as dispersion. The standard deviation measure the absolute dispersion. The greater amount of dispersion reflects the high degree of uniformity of observation as well as homogeneity of a series and vice-versa.

Symbolically,

$$\text{S.D } (\sigma) = \sqrt{\frac{\sum(x - (\bar{X}))^2}{n}}$$

(iii) Coefficient of Variance (CV)

The coefficient of variance is defined as the ratio of standard deviation to the mean expressed in percentage. It is measurement of the relative dispersion developed by Karl Pearson. It is used to compare the variability of two or more series. The series with higher coefficient of variable is less consistent, less stable and less homogenous. On the contrary, the series with less coefficient of variation is said to be less variable, more consistent, more uniform, more stable and more homogenous. It is denoted by C.V. and is obtained by dividing the standard deviation by arithmetic mean.

Symbolically,

$$\text{CV} = \frac{\text{standard deviation (S.D.)}}{\text{mean } (\bar{X})} \times 100\%$$

The coefficient of variance is the relative measure and is independent of units. The coefficient of variance is applicable for the comparisons of variability of two or more distributions. The greater the value of the coefficient of variation, the less has been the uniformity and the smaller the value of coefficient of variation, the more has been the uniformity. The higher C.V. denotes to the higher variability of variable and vice-versa

(iv) Coefficient of correlation (r)

Correlation analysis is the statistical tools that can be used to describe the degree to which one variable is linearly related to single and multiple correlations have been used. Correlation co-efficient between the following financial variable have been calculated and interpreted.

In practice, there are so many variable shows some types of relationship between each other. If the two variables are so related that the change in the value of one variable is accompanied by the change in the value of the other variable then they are said to have "correlation".

-) Between dividend per share and earning per share
-) Between earning per share of last year and current market price per share
-) Between dividend per share of last year and current market price per share.

The correlation can be classified as follows.

The relation between two variables is called simple correlation. It is denoted by “r”. If both variables move in the same direction then the two variables are said to be positive correlated otherwise they are said to be negative correlated. The value of coefficient of correlation is always lies between ± 1 . +1 indicates a perfect positive relationship between two variables, -1 indicates perfect negative relationship and 0 indicates no relationship between variables. The zero correlation coefficient means the variables are uncorrelated. If "r" is closer to +1 or -1, the variables have close relationship and if closer to zero, the less close relationship. The algebraic sign of the correlation coefficient indicates the direction of the relationship between the variables, whether direct or inverse, while the numerical value of the coefficient is concerned with the strength or closeness of the relationship between two variables. Thus, in this study the degree of relationship between market price and other relevant financial indicators such as dividend per share, earning per share, dividend payout ratio etc. is measured by the correlation coefficient. Calculated as follows

$$\text{Correlation (r)} = \frac{\sum xy - n\bar{x}\bar{y}}{\sqrt{\sum x^2 - n(\bar{x})^2} \sqrt{\sum y^2 - n(\bar{y})^2}}$$

Where,

x = standard deviation of x variables

σ_y = standard deviation of y variables

N = no. of observations

(V) Probable Error (PE)

The probable error of the coefficient of correlation helps in interpreting its value. It helps to determine the reliability of the value of coefficient. To cross check the validity of the result, we can take the help of following formula.

Symbolically:

$$\text{Probable Error (PE)} = 0.6745 \times \frac{\sigma_y \sqrt{1-r^2}}{\sqrt{n}}$$

Where,

PE = Probable Error of 'r'

r = coefficient of correlation

r^2 = coefficient of determination between x and y

There are 3 conditions to know the degree of correlation between x and y.

- 1) If the value of 'r' is less than 6 times the probable error.
(i.e., $r < 6 \times \text{PE}(r)$, there is no significant relationship between x and y)
- 2) If the value of 'r' is more than 6 times the possible error.
(i.e., $r > 6 \times \text{PE}(r)$, there is most significant relationship between x and y.)
- 3) If $\text{PE}(r) < r < 6 \times \text{PE}(r)$, there is moderate relation between x and y.

(vi) Standard Error of Estimate (SEE)

With the help of regression equations perfect prediction is practically impossible. The standard error of the estimate measures the accuracy of the estimated figures. It also measures the dispersion about an average line. If standard error of estimate is zero, then the estimating equation to be 'perfect' estimator of the dependent variable. It indicates that the smaller value of SE

estimate the closer will be the dots to the regression line. Thus, with the help of standard error of estimate, it is possible for us to ascertain how good and representative the regression time is as a description of the average relationship between two series. In this research work, standard error of estimate is calculated for the selected dependent and independent variables specified on the model.

3.4.1.3 Test of Hypothesis

A Hypothesis is a conjectural statement of the relationship between two or more variables (Kerlinger: 1964). Hypothesis statement should be also to show the relationship between variables. At the same time, they should carry clear implication for testing the stated relation. The research on this thesis topic strongly holds that the hypothesis formulated, meet the above mentioned criteria. The hypothesis of this study is as follows.

T-statistic

To test the validity of assumption if sample size is less than 30 t-test is used. For applying t-test in the context of small, the t- value is calculated at first and compared with the table values off 't' at a certain level of significance for given degree of freedom. If calculated t-value exceeds the table value (say0.05) we infer that he difference is not treated as significant. In this research work, t-value is calculated between earning per share and dividend per share, net profit and dividend per share and market price per share.

1. First Hypothesis

Null hypothesis (H_0):

- i) There is no significant difference between mean DPS of AFC and KFC.
- ii) There is no significant difference between mean DPR of AFC and KFC.

$$\mu_1 = \mu_2$$

Alternative Hypothesis (H_1):

- i) There is significant difference between mean DPS of AFC and KFC.
- ii) There is significant difference between mean DPR of AFC and KFC.

$$\mu_1 \neq \mu_2$$

2. Second Hypothesis

Null hypothesis (H_0):

- i) There is no significant difference between mean DPS of UNL and BNL.
- ii) There is no significant difference between mean DPR of UNL and BNL.

$$\mu_1 = \mu_2$$

Alternative Hypothesis (H_1):

- i) There is significant difference between mean DPS of UNL and BNL.
- ii) There is significant difference between mean DPR of UNL and BNL.

$$\mu_1 \neq \mu_2$$

Analysis of variance (ANOVA)

In order to test whether all the means of different sectors have same common mean or not, analysis of variance is carried out. With this test one can make an inference whether the difference between the sample means is merely due to sample fluctuation or they are significantly different. The technique used in analysis of variance which compares among the sector variance and to the within sector variance is F-ratio.

$$F = \frac{\text{Mean sums of square between sectors/ d.f.}}{\text{means sums of error/ d.f.}}$$

1. First Hypothesis

Null Hypothesis (H_0):

H_0 : There is no significant difference among the DPS of Manufacturing sector and Finance sector.

i.e. $H_0: \mu_1 = \mu_2$

Alternative Hypothesis (H_1):

H_1 : There is significant difference among the DPS of, Manufacturing sector and Finance sector.

i.e. $H_1: \mu_1 \neq \mu_2$

2. Second Hypothesis

Null Hypothesis (H_0):

H_0 : There is no significant difference among the EPS of Manufacturing sector and Finance sector.

i.e. $H_0: \mu_1 = \mu_2$

Alternative Hypothesis (H_1):

H_1 : There is significant difference among the EPS of Manufacturing sector and Finance sector.

i.e. $H_1: \mu_1 \neq \mu_2$

3. Third Hypothesis

Null Hypothesis (H_0):

H_0 : There is no significant difference among the DPR of Manufacturing sector and Finance sector.

i.e. $H_0: \mu_1 = \mu_2$

Alternative Hypothesis (H_1):

H_1 : There is significant difference among the DPR of Manufacturing sector and Finance sector.

i.e. $H_1: \mu_1 \neq \mu_2$

4. Forth hypothesis

Null Hypothesis (H_0):

H_0 : There is no significant difference among the MPS of Manufacturing sector and Finance sector.

i.e. $H_0: \mu_1 = \mu_2$

Alternative Hypothesis (H_1):

H_1 : There is significant difference among the MPS of Manufacturing sector and Finance sector.

i.e. $H_1: \mu_1 \neq \mu_2$

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

In this chapter, the relevant data and information on dividend policy of the selected companies are presented and analyzed comparatively keeping the objective of the study in mind. To begin with analysis of dividend payment practices of the financial institution is done at first. In the second part of the chapter, analysis of impact of dividend policy on market price of share and relationship of dividend with other key variables are done with the help of the statistical tools mentioned in the chapter. In the third part, hypothetical analysis is done. This is the main central nervous system, which helps to conclude the study through major findings, vital issues and recommendation. This chapter makes the proper linkage with other chapter.

4.1 Analysis of Financial Indicators and Variables

4.1.1. Analysis of Earning Per Share (EPS)

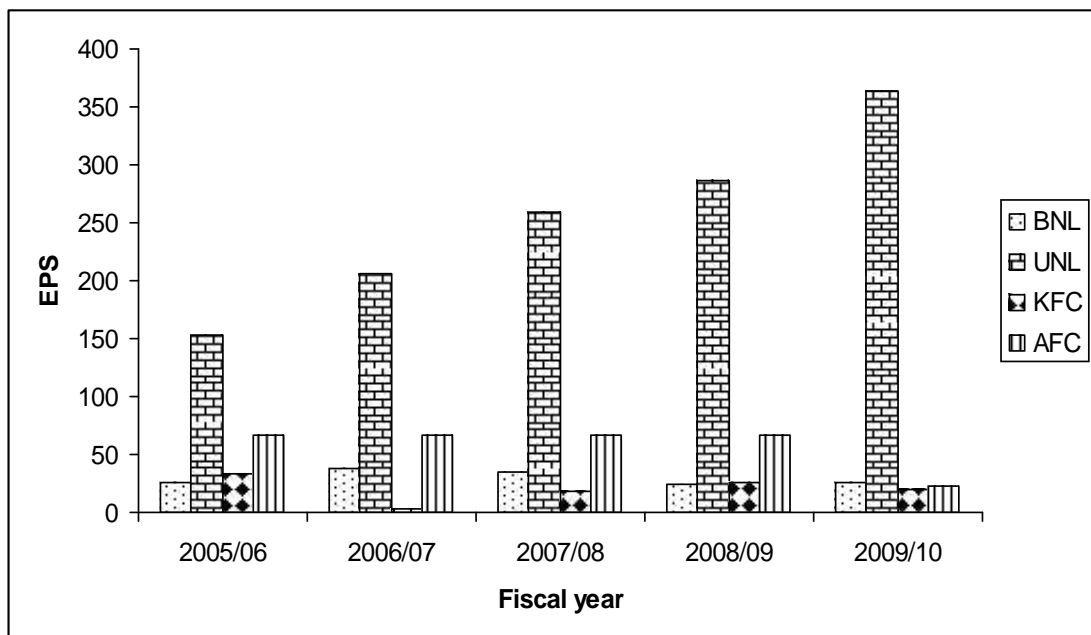
Generally, the performance and achievements of business organization are measured in terms of their capability to generate earnings. The earnings of any business organization also helps to evaluate performance. Higher earnings indicate the strength and lower earnings denote the weakness of business organization because the earnings of any organization help for its growth, expansion and modernizations. The earning power of the business unit is measured in terms of earnings per share (EPS). EPS calculation made over the years indicates whether the company's earning power per share has improved or deteriorated over period. So EPS is one of the vital variables measuring the firm's earnings generation.

Table 4.1
Analysis of EPS

Year	EPS				Pooled Average
	BNL	UNL	KFC	AFC	
2005/06	25.36	152.90	33.85	67.17	69.82
2006/07	37.80	205.50	2.77	65.97	78.01
2007/08	34.73	258.70	17.97	65.97	94.34
2008/09	24.96	285.70	26.30	65.97	100.73
2009/10	25.36	364.00	20.03	22.25	107.91
Average	29.64	253.36	20.18	54.47	89.43
S.D.	5.50	71.68	10.32	17.61	
CV (%)	18.54	28.3	51.13	0.31	

(Source: Annual Reports of the companies)

The Earning per share of the financial and manufacturing company is presented in the following chart.



The average EPS of BNL is Rs.29.64 .The companies has maintained its average EPS in fiscal year 2006/07 and FY 2007/08. Standard deviation of EPS of BNL is 5.5 and its CV is 18.54%. In the same way, the average EPS of UNL is Rs.253.36. The companies have maintained its average EPS after FY

2007/08. Before FY 2007/08 the company is unable to maintain its average EPS. The EPS of the company ranges from Rs.152.90 to Rs.364. Standard deviation of EPS of UNL is 71.69 and its CV is 28.30%. That means the EPS of UNL is more fluctuate than the EPS of BNL. The cross-section analysis shows that the company is above the pooled average in FY 2005/06 and FY 2006/07.

Likewise the EPS of AFC is Rs.54.47. The company has maintained its average EPS in every year except FY 2009/10. The EPS of the company ranges from Rs.22.25 to Rs.67.17. Standard Deviation of EPS of AFC is 17.61 and CV is only 31%, which means AFC fluctuate more than other. The cross-section analysis shows that the financial sector is always below the pooled average in all fiscal years.

Comparing overall performance of companies among selected for the study of EPS, only one out of four has been found to maintain composite average. The composite average EPS is Rs.89.43 and the average of UNL is more than Rs.89.43.

Eventually from the above analysis of four companies, UNL has the highest EPS. It indicates that the earning capacities of the company are goods than other selected companies. The EPS of KFC is low than the others, so it's in weakest position on generation of earnings.

4.1.2 Analysis of Dividend per Share (DPS)

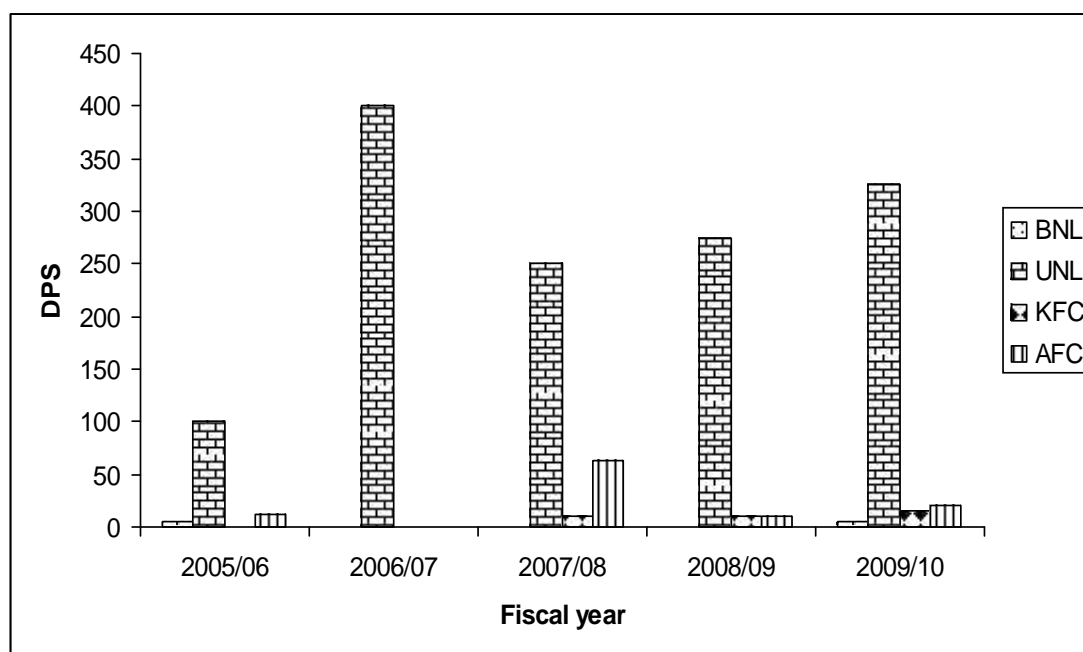
DPS indicates the portion of earning distributed to the shareholders on per share basis. The following table shows all details relating to dividend per share.

Table 4.2
Analysis of DPS

Year	DPS				Pooled Average
	BNL	UNL	KFC	AFC	
2005/06	5.00	100	-	12	29.25
2006/07	-	400	-	52.3.6	113.09
2007/08	-	250	10.53	63.19	80.89
2008/09	-	275	10	10.53	73.88
2009/10	5.00	325	15	21.05	91.51
Average	2.00	270	7.11	31.88	77.75
S.D.	2.45	99.25	5.92	21.81	
CV (%)	122.47	36.76	83.21	0.68	

(Source: Annual Reports of the companies)

Dividend per share of the selected companies is also shown through the chart.



The above table 4.2 shows the amount of dividend per share of the sample companies from FY 2005/2006 to 2009/10. The average DPS of BNL is only Rs.2. The company has maintained its average DPS on FY 2005/06 and FY 2009/10, in other fiscal year the company has not declared dividend. The

DPS of the company is only Rs.5, in two fiscal years. Standard Deviation of DPS of BNL is 2.45 and its CV is 122.47%. That means The DPS of BNL is more fluctuate. Standard Deviation of DPS of BNL is 2.45 and its CV is 122.47%. The average DPS of KFC is Rs.7.11.

The company maintains its average DPS in all fiscal year when company paid dividend. The DPS of the company ranges from Rs.0 to Rs.15. Standard Deviation of DPS of KFC is 5.92 and its CV is 83.21%, which is lesser then that of BNL only among the selected companies. The Cross-section analysis shows the financial company is always below the pooled average. Likewise, the average DPS of AFC is Rs. 31.88. The company has not maintained its average DPS in the fiscal year 2006/07 and 2008/09. The DPS of the Company ranges between Rs.10.53 to Rs.63.19. Standard Deviation of DPS of AFC is 21.81 and its CV is only 0.68%, which is the least CV among the selected companies. The Cross- section analysis shows the financial company is always in below pooled average DPS.

Comparing overall performance of companies among selected for the study of DPS, only one out of four has been found to maintain composite average. The composite average DPS is Rs.77.75 and the average of UNL is more than Rs.77.75.

Thus analysis of the DPS trends shows that UNL is the best one among the companies who are the expecting to invest in selected companies. It has the highest average DPS and the lowest than other besides KFC. It shows that the company is in the positive growth.

4.1.3. Analysis of Market Price per Share (MPS)

Market price of share refers to the value paid to a share of the firm by the investors in stock market .This price fixed on the basis of demand and supply interaction of a specified share in the stock market. MPS represents the

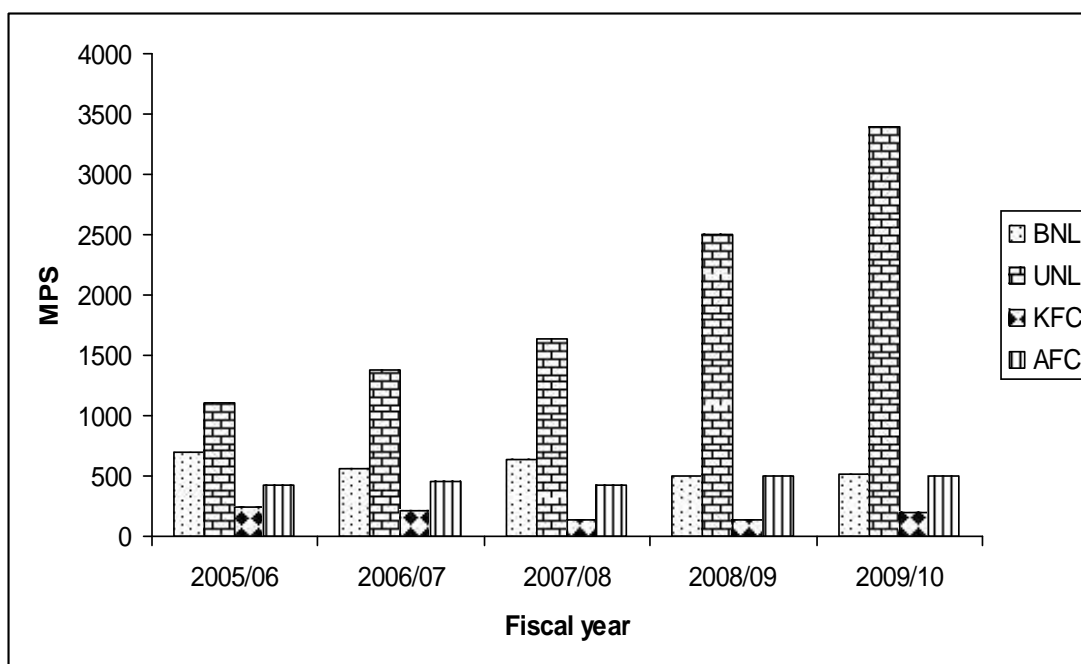
closing market price of the particular share in the particular fiscal year in NEPSE. The following table shows the market price of sample firms.

Table 4.3
Analysis of MPS

Year	MPS				Pooled average
	BNL	UNL	KFC	AFC	
2005/06	700	1100	235	420	613
2006/07	554	1380	205	450	647.25
2007/08	635	1630	138	431	708.5
2008/09	500	2500	140	500	910
2009/10	520	3400	203	500	924.6
Average	581.84	2002	184.20	460.20	807.06
S.D.	74.95	841.58	38.61	33.88	
CV (%)	12.88	42.04	20.96	7.36	

(Source: Annual Reports of the companies)

The MPS of the companies is also presents by following chart.



The above table presents the MPS of the four sample companies for the period of five fiscal year starting from 2005/06 to 2009/10. It shows that MPS of the companies are in increasing order. The average MPS of BNL is Rs.581.80. The MPS of the company is above average MPS in FY 2005/06 and FY 2007/08. The MPS of the company range from Rs.500 to Rs.700. The MPS decrease to RS.554 in FY 2006/07 from Rs.700 MPS in FY 2005/06. The Standard Deviation of MPS of the BNL is 74.95 and its CV is 12.88%. That means the MPS of BNL is less fluctuate than. The cross-section analysis shows that the financial sector is always below the pooled average MPS. The average MPS of KFC is Rs.184.20. The MPS of the company is above the average MPS in three fiscal years except FY 2007/08 and FY 2008/09. The MPS of the company ranges between Rs.138 to Rs.235. Standard Deviation of MPS of KFC is 38.61 and its CV is 20.96%.

Comparing overall market performance of companies share among all selected companies for the study of MPS, only one out of four has been found to maintain its share price above the composite average MPS. The composite average MPS is 807.06 and the average of and UNL is more than Rs.807.06

4.1.4 Analysis of Dividend Payout Ratio (DPR)

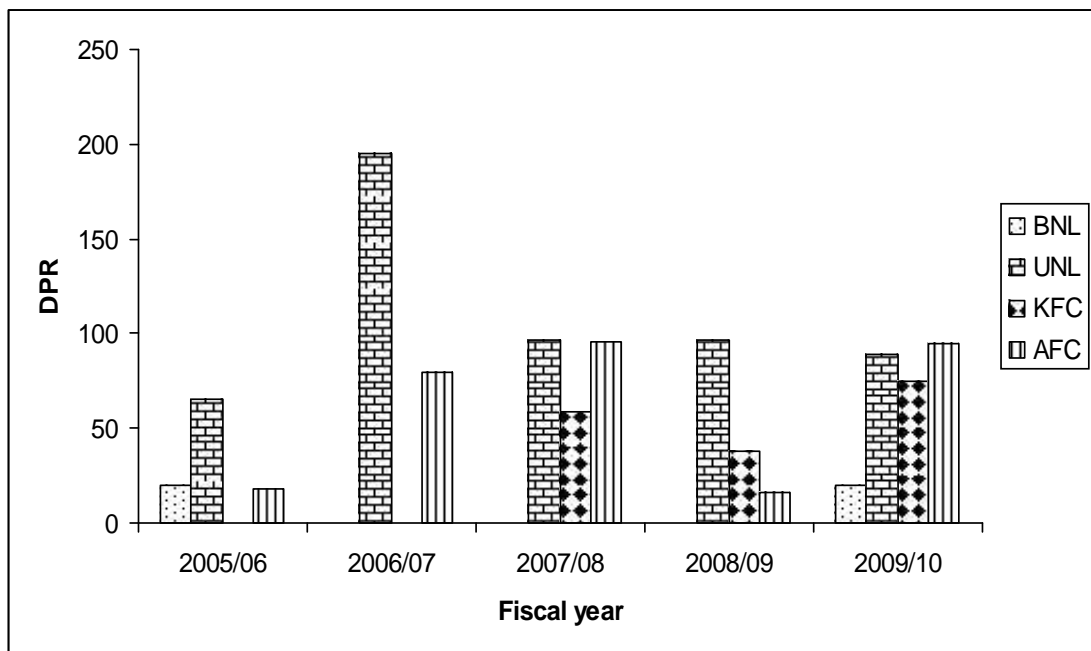
The amount of dividend that a company pays depends upon the earning capacity of the company. Greater earning enhances the ability to pay more dividends and vice versa. In connection with this, dividend payout ratio reflects that percentage of current profit, which has been distributed as dividend and what percentage has retained to finance the growth of the company. It is the attitude of the management towards the treatment of profit in respect to distribution of dividend and retained earnings. The following table shows the Dividend Payout Ratio (DPR) of sample companies.

Table 4.4
Analysis of DPR

Year	DPR				Pooled year
	BNL	UNL	KFC	AFC	
2005/06	19.72	65.40	-	17.87	21.25
2006/07	-	194.65	-	79.78	68.60
2007/08	-	96.66	58.58	95.74	62.75
2008/09	-	96.25	38.02	15.96	37.56
2009/10	19.72	89.29	74.89	94.61	69.63
Average	7.89	108.45	34.2960.79	62.36	53.25
S.D.	9.66	44.56	30.34	36.27	
CV(%)	122.34	41.09	88.19	59.67	

(Source: Annual Reports of the companies)

The data presented in the above table is presented in the chart below.



In the above table (table 4.4) shows the DPR. In case of UNL its DPR is found to be ranges from 65.4% to 194.65%. The mean, SD and CV of DPR of the company is 108.45%, 44.56% and 41.09%. The mean 108.45% is the highest mean among the sample studied. The CV of 41.09% explicitly means

that there is 41.09% fluctuation in DPR of the company during the study period. The cross-section analysis shows that the company's DPR is above the pooled average in all years except fiscal year 2005/06.

In the same way, DPR of KFC is ranged from 0% to 74.89%. Its mean DPR is 34.29% and SD and CV is 30.34% and 88.19% respectively, which indicates that the DPR of the company is fluctuate by 88.19% during the study period .The cross- section analysis shows that DPR of the company is below the pooled average DPR of all the years of study period.

Likewise, DPR of AFC is ranged between 15.96% to 95.74%.The mean DPR is 60.79% and the Standard Deviation is 36.27. The CV of the company is 59.67%, which indicates that the DPR of the company fluctuate by 59.67% during the study period. The cross-section analysis shows that DPR of the company is always above the average pooled DPR except in the FY 2005/06and 2008/09. Going through the above table 4.4 it is clear that BNL has the highest fluctuation in DPR (122.44%).

Going through the facts, it has been clear that Nepalese companies are not following stable dividend payout policy. Only three company (UNL) is found to maintain above composite average dividend payout ratio.

4.1.5 Analysis of Dividend Yield Ratio (DYR)

Dividend Yield Ratio is highly influenced by the market value per share and dividend per share .This ratio highly influences the market value per share because small change in dividend per share can bring effective change in market value of that share. Therefore, before allocation of a market scenario and price fluctuation is said to be studied and evaluated for the long run survival of the company.

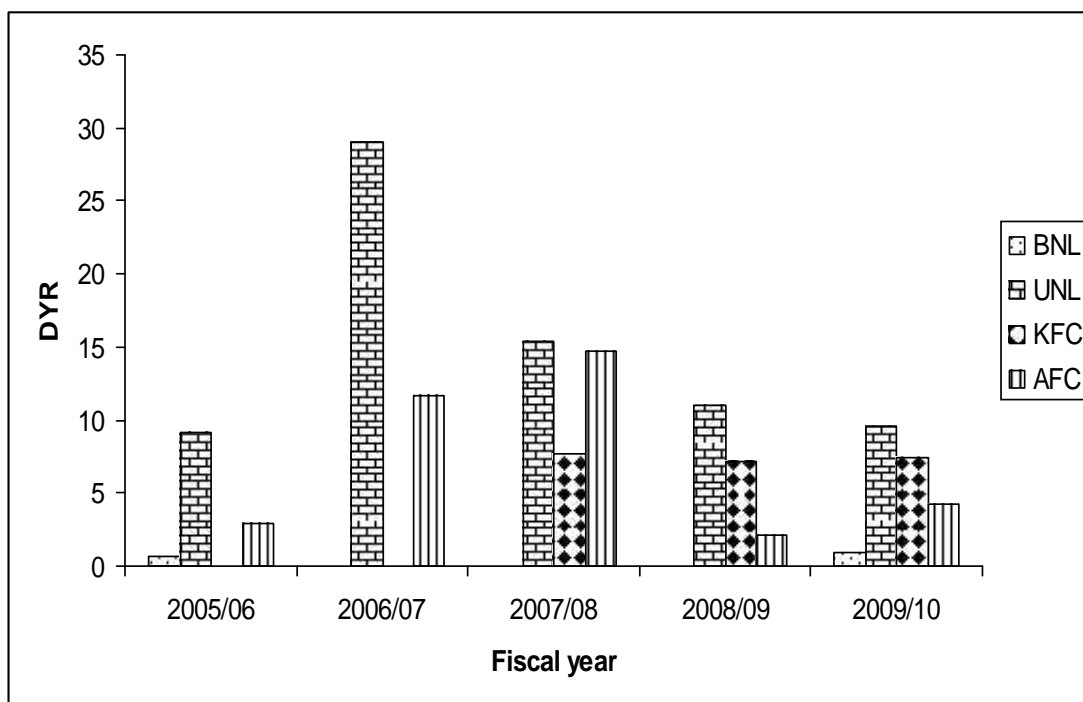
The following table shows Dividend Yield Ratio (DYR) of the sample companies.

Table No. 4.5
Analysis of DYR

Year	DYR				Pooled Average
	BNL	UNL	KFC	AFC	
2005/06	0.72	9.09	-	2.86	3.17
2006/07	-	28.99	-	11.7	10.17
2007/08	-	15.34	7.63	14.65	9.410
2008/09	-	11	7.14	2.11	5.06
2009/10	0.96	9.56	7.39	4.21	5.53
Average	0.34	14.8	4.43	7.09	6.67
S.D.	0.42	7.43	3.62	5.09	
CV (%)	123.08	50.21	81.76	71.75	

(Source: Annual Reports of the companies)

The DYR of the selected companies is presented in below chart.



Above table shows that average DYR of UNL range from 9.09% to 28.99%. Its average during the study period is 14.80% and SD is 7.43. It has CV of 80.21%, which indicates there 50.21% fluctuation on DYR. The cross-section analysis reveals that the UNL and AFC is above pooled average in all the year.

Similarly, average DYR of KFC ranges from 0 to 7.63% .Its average DYR is 4.43% and SD is 3.62. Its CV is 81.76% .The Company has not paid dividend in first, three fiscal years.

Finally, DYR of AFC ranges from 2.11% to 14.65% and its standard deviation is 5.09. The CV of DYR of AFC is 71.75%, which is the second highest CV among all the companies taken during the study. So AFC fluctuate more than other company except BNL.

In totality, UNL has the highest average DYR i.e.14.80% but the dividend yield of the company does not seem encouraging. It shows that investor have not got handsome return on their market value of share. Only two companies i.e. AFC and UNL, out of four companies are found to maintain above composite average dividend yield.

4.1.6. Analysis of Price Earning Ratio (P/E Ratio)

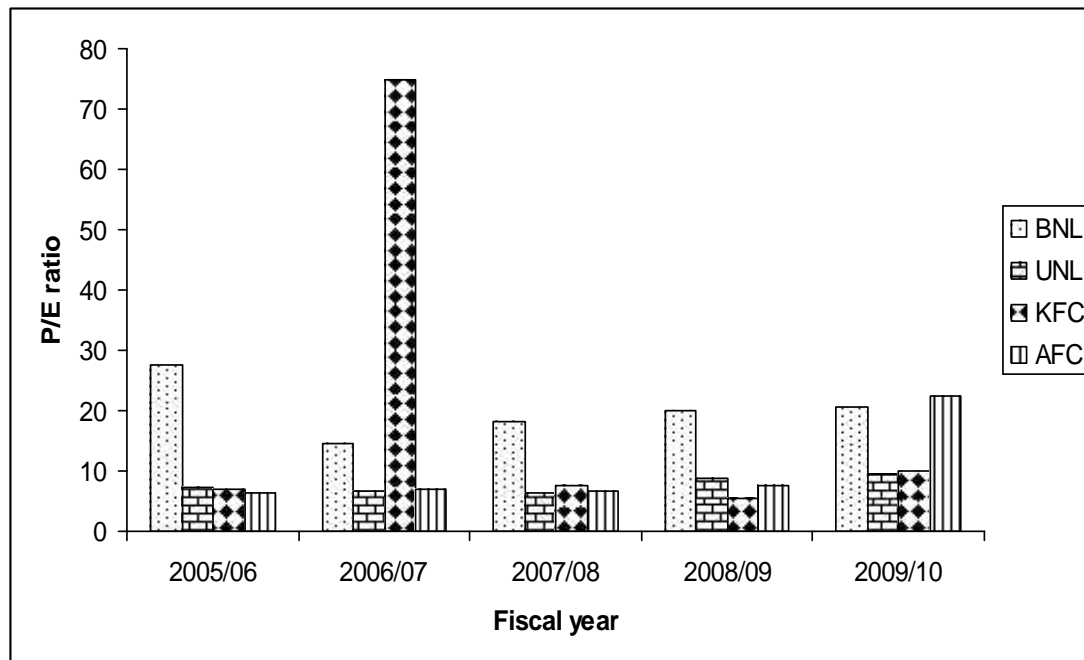
Price earning ratio is concerned with the relationship of the market value per share. It indicates the price currently paid by the market value per share. It indicates the price currently paid by the market for each rupee of reported earning per share. The analysis of P/E Ratio helps to judge the investors' expectations about the company's performance and also market appraisal of the companies. Higher P/E Ratio shows the better performance and vice-versa. Hence higher P/E ratio is regarded as better for both the banks and shareholders. It is calculated by dividing the market value per share by earning per share.

Table no. 4.6
Analysis of P/E Ratio

Year	P/E Ratio				Pooled Average
	BNL	UNL	KFC	AFC	
2005/06	27.60	7.19	6.94	6.25	11.99
2006/07	14.66	6.72	74.77	6.82	25.74
2007/08	18.28	6.32	7.68	6.53	9.70
2008/09	20.03	8.75	5.32	7.58	10.420
2009/10	20.50	9.34	10.13	22.47	15.54
Average	20.21	7.66	20.97	9.93	14.69
S.D.	4.23	1.18	26.94	6.29	
CV (%)	20.91	15.35	128.47	63.30	

(Source: Annual Reports of the companies)

The above data also presents in following chart.



Above table depicts that P/E Ratio of UNL ranges from 6.32% to 9.34%. Its SD is 1.18 and CV is 15.35%, which indicates the fluctuation in P/E

ratio is 15.35%. The cross-section analysis shows that the company is unable to meet the pooled average in all the studied year.

Similarly, average P/E ratio of KFC is 20.97% and its SD is 26.94. It has CV of 128.47% during the study, which is also the highest CV among the studied companies, so it has high variability than others in P/E ratio. The cross-section analysis shows that the company is unable to meet pooled average in all the years except 2006/07.

Finally, P/E Ratio of AFC ranges from 6.25% to 22.47%. Its SD is 6.29 and CV is 63.30%, which indicates the fluctuation in P/E ratio is 63.30%. The cross-section analysis shows that the company is unable to meet the pooled average in all the studied year.

Ongoing to the comparative analysis of P/E Ratio figures of the above samples only two companies cannot meet the composite average; those companies are UNL and AFC. The highest average P/E ratio is 20.97% and that is of KFC. The lowest P/E ratio is 7.66 and that is of UNL. The UNL has the lowest fluctuation and KFC has highest fluctuation.

Thus, analyzing the P/E Ratio we come to know that the KFC is performing the better than the others companies. The BNL has the lowest P/E ratio and it indicates that the BNL has the lowest market value.

4.1.7 Analysis of Earning Yield Ratio (EYR)

This ratio significantly influences the market value per share because a small change in EPS brings effective change in the market value of the share. The main reason behind such kind of tabulation is to point out the percentage relationship between EPS-MPS so as to illustrate the earning yield of the concerned companies, which may be reliable tool to calculate the real value of

the dividend as compared with current market value of each share. This ratio is calculated by dividing the earning per share by the market price per share.

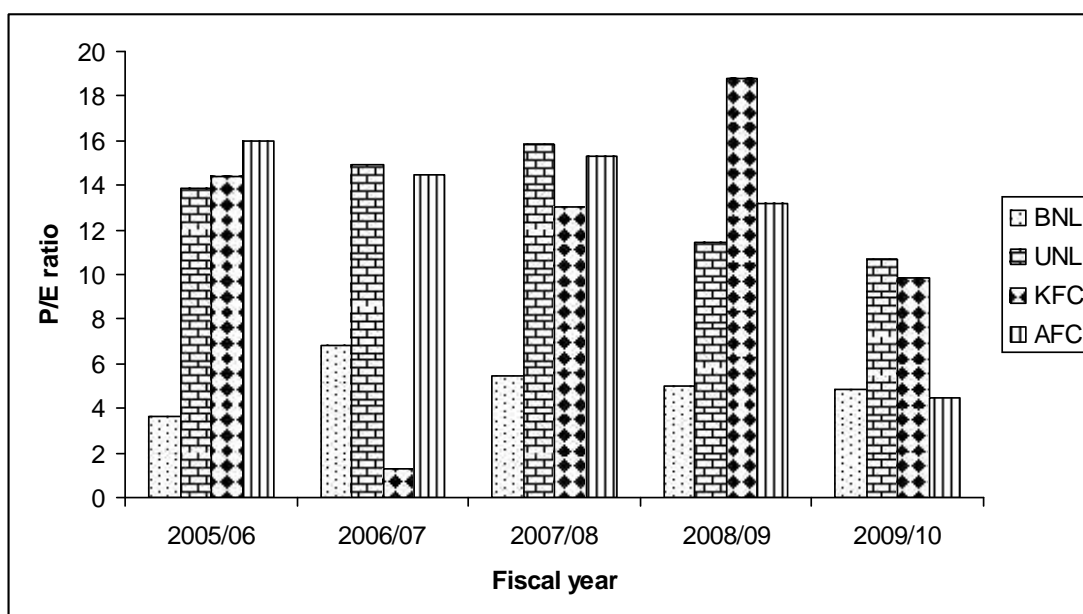
The following table shows the earning yield ratio of sample companies.

Table no. 4.7
Earning Yield Ratio (EYR)

Year	P/E Ratio				Pooled Average
	BNL	UNL	KFC	AFC	
2005/06	3.62	13.90	14.40	15.99	11.98
2006/07	6.82	14.89	1.32	14.48	4.70
2007/08	5.47	15.87	13.02	15.31	12.41
2008/09	4.99	11.43	18.79	13.19	12.10
2009/10	4.88	10.71	9.87	4.45	7.50
Average	5.16	13.36	11.48	12.68	10.67
S.D.	1.03	1.98	5.83	4.22	
CV (%)	20.01	14.85	50.81	33.29	

(Source: Annual Reports of the companies)

The data also analyzed through the following chart.



EYR of UNL ranges from 10.71% to 15.87%. Its mean, SD and CV is 13.36%, 1.98 and 14.85% respectively. The fluctuation in EYR is 14.85% during the study period, which indicates low fluctuation in EYR comparing to other companies. The company is able to meet its average EYR in the year 2005/06, 2006/07 and 2007/08 only. The cross section analysis shows that the company lies always above the pooled average during the study period.

Similarly, average EYR of KFC is 11.48% and its SD is 5.83. It has CV of 50.81% during the study period, which indicates the highest fluctuation in EYR among the selected companies. The cross section analysis shows that the company lies always above the pooled average during the year except in fiscal year 2006/07.

Finally, EYR of AFC ranges from 4.45% to 15.99%. Its mean, SD and CV is 12.68, 4.22 and 33.29% respectively. The fluctuation in EYR is 33.29% during the study period. The company is able to meet its average EYR in the year all year except fiscal year 2009/10. The cross section analysis shows that the company lies always above the pooled average during the study period except in fiscal year 2009/10.

Ongoing to the companies of the EYR figures of the above samples, in the early years of study all companies have higher EYR but it decreases in subsequent year. From table we know only three companies i.e. UNL, KFC and AFC can meet composite average (10.67%). The highest average EYR is 13.36% of UNL and the lowest average EYR is 5.16% of BNL. The BNL has lowest fluctuation and UNL has highest fluctuation.

4.2 Analysis of Statistical Indicators and Variables

4.2.1 Correlation between EPS and DPS

Correlation analysis is a statistical tool which studies the relationship between two variables. Correlation analysis involves various methods and

techniques which is used for studying and measuring the extent of the relationship between two variables ,whether a positive or a negative relationship exist between two variables. It also indicates whether the relationship is significant or insignificant and the correlation analysis is used to identify the relationship between EPS and DPS, EPS and MPS, last Dividend and MPS.

Table no. 4.8
Correlation between EPS and DPS

Name of the company	Coefficient of Correlation (r)	Relationship	Coefficient of Determination (r ²)	Probable Error (PE)	Significant/ Insignificant
BNL	-0.64	Negative	0.41	0.1781	Insignificant
UNL	0.48	Positive	0.23	0.2321	Insignificant
KFC	0.11	Positive	0.01	0.2980	Insignificant
AFC	0.23	Positive	0.05	0.2857	Insignificant

The coefficient of correlation between EPS and DPS of UNL is 0.48, which shows there is low degree of positive correlation between EPS and DPS of UNL. Likewise, its coefficient of determination is 0.23 which means, DPS is affected by EPS only by 23% and the rest 77% is affected by other variables. Since $r < 6PE$, the value of r is insignificant, i.e. the correlation is uncertain.

The coefficient of correlation between EPS and DPS of KFC is 0.11, which shows there is low degree of positive correlation between EPS and DPS of KFC. Likewise, its coefficient of determination is 0.01 (almost zero) which means, DPS of KFC is not affected by EPS at all. Since $r < 6PE$, the value of r is not significant.

Finally, coefficient of correlation between EPS and DPS of AFC is 0.23, which shows there is low degree of positive correlation between EPS and DPS

of AFC. Its coefficient of determination is 0.05, which means only 5% of DPS is affected by EPS and rest 95% is due to other unknown factors. Since $r < PE$, the value of r is insignificant, i.e. the correlation is uncertain.

From the analysis of above table it can be conclude that DPS of the manufacturing sector and financial sector is determined by other factors rather than EPS.

4.2.2 Correlation EPS and MPS

Table no. 4.9
Correlation EPS and MPS

Name of the company	Coefficient of Correlation (r)	Relationship	Coefficient of Determination (r^2)	Probable Error (PE)	Significant/ Insignificant
BNL	0.09	Positive	0.001	0.2992	Insignificant
UNL	0.38	Positive	0.14	0.2583	Insignificant
KFC	0.08	Positive	0.006	0.2997	Insignificant
AFC	0.6	Positive	0.36	0.1931	Insignificant

The above table explains the relationship between Earning per Share of last year [$EPS_{(t-1)}$] and Market price per Share of the concerned companies. Coefficient of correlation between [$EPS_{(t-1)}$] and MPS of BNL is 0.09, which shows that there is low degree of positive Correlation between [$EPS_{(t-1)}$] and MPS of BNL. Likewise, its coefficient of determination is 0.001, which is almost zero that means MPS is affected by EPS zero that means MPS is affected by EPS. The coefficient of correlation between [$EPS_{(t-1)}$] and MPS of UNL is 0.38, which shows that there is low degree of positive Correlation between [$EPS_{(t-1)}$] and MPS of UNL. Likewise, its coefficient of determination is 0.14 which means; MPS is affected by $EPS_{(t-1)}$ only by 14% and rest 86% by other unknown variables. Since $r < 6PE$, the value of 'r' is not significant.

The coefficient of correlation between [EPS_(t-1)] and MPS of KFL is 0.08, which shows that there is low degree of positive Correlation between [EPS_(t-1)] and MPS of KFL. Likewise, its coefficient of determination is 0.06 means, MPS is affected by EPS_(t-1) only by 0.6% and rest 99.4% by other unknown variables .Since $r < 6PE$, the value of r is not significant.

Likewise, coefficient of correlation between [EPS_(t-1)] and MPS of AFL is 0.60. Likewise, its coefficient of determination is 0.36 means, MPS is affected by EPS_(t-1) only by 36% and rest 64% by other unknown variables. Since $r < 6PE$, the value of r is not significant.

From the analysis of above table it can conclude that MPS of the all companies is not affected by the earning per share of last year [EPS_(t-1)] since remarks of all companies is insignificant.

4.2.3 Correlation DPS and MPS

Table no. 4.10
Correlation DPS and MPS

Name of the company	Coefficient of Correlation (r)	Relationship	Coefficient of Determination (r ²)	Probable Error (PE)	Significant/ Insignificant
BNL	0.31	Positive	0.096	0.2727	Insignificant
UNL	0.96	Positive	0.920	0.0236	Significant
KFC	-0.32	Negative	0.102	0.5724	Insignificant
AFC	-0.43	Negative	0.185	0.2458	Insignificant

The above table (4.10) explains the relationship between dividend of last year [DPS_(t-1)] and the current MPS of the concerned companies. Coefficient of correlation between DPS_(t-1) and MPS of BNL is 0.31, which shows there is low degree of positive correlation between DPS_(t-1) and MPS of BNL.

Likewise, Its coefficient of determination is 0.096 means, MPS is affected by EPS only by 9.6% and the rest 90.4% is affected by other unknown variables. Since $r < 6PE$, the value of 'r' is not significant.

The coefficient of correlation between $DPS_{(t-1)}$ and MPS of UNL is 0.96, which shows there is high degree of positive correlation between $DPS_{(t-1)}$ and MPS of EPS only by 92% and the rest 8% is affected by other unknown variables. Since $r > 6PE$, the value of r is significant. The coefficient of correlation between $DPS_{(t-1)}$ and MPS of KFC is -0.322, which shows there is low degree of negative correlation between $DPS_{(t-1)}$ and MPS of KFC. Likewise, Its coefficient of determination is 0.102 means, MPS is affected by EPS only by 10.2% and the rest 89.8% is affected by other unknown variables. Since $r < 6PE$, the value of r is not significant.

Likewise, coefficient of correlation between $DPS_{(t-1)}$ and MPS of AFC is -0.43, which shows there is low degree of negative correlation between $DPS_{(t-1)}$ and MPS of AFC. Likewise, Its coefficient of determination is 0.185 means, MPS is affected by EPS only by 18.5% and the rest 81.5% is affected by other unknown variables. Since $r < 6PE$, the value of r is not significant.

From the analysis of above table it can be conclude that MPS of the all companies is not affected by the last dividend [$DPS_{(t-1)}$] except in and UNL. That means there is no high significant relationship between the MPS and Last Dividend of the selected companies.

4.3 Testing of Hypothesis

A quantitative statement about the population parameter is called a hypothesis. In other words, it is an assumption that is made about the population parameter and then its validity is tested. It may or may not be found valid on verification.

Testing of hypothesis is one of the most important aspects of the theory of decision making .It is consists of decision rules required for drawing probabilistic inference about the population parameters. It often involves deciding at any given point of time whether a given population parameter is the same as before, as claimed or has changed.

4.3.1. t-test

1. First Hypothesis

Null Hypothesis (H_0):

- H_0 :
1. There is no significant difference between mean DPS of BNL and UNL.
 2. There is no significant difference between mean DPR of BNL and UNL.
- i.e. $H_0: \mu_1 = \mu_2$

Alternative Hypothesis (H_1):

- H_1 :
1. There is significant difference between mean DPS of and BNL UNL.
 2. There is significant difference between mean DPR of BNL and UNL.
- i.e. $H_1: \mu_1 \neq \mu_2$

Table 4.11

Result of t-test between the Manufacturing Companies

Variables	Calculated value (t)	Tabulated Value $ t_{0.05(4)} $	Null Hypothesis	Inference
Average DPS	0.39	2.776	Accept	Significant
Average DPR	0.96	2.776	Accept	Significant

(Source: Appendix III)

Above table shows that the calculated average DPS t-value is less than that of tabulated value at 5% level of significance and 4 degree of freedom. So, Null Hypothesis (H₀) is accepted and alternate Hypothesis (H₁) is rejected. That means there is no significant difference between the mean DPS of UNL and BNL. It is found that UNL has higher average DPS than that of BNL. It is found that the average DPR of UNL is higher than that of BNL.

Likewise, the table shows that the calculated average DPR t-value is less than that of tabulated value at 5% level of significance and between the 4 degree of freedom. So, Null Hypothesis (H₀) is accepted and alternate Hypothesis (H₁) is rejected. That means there is no significant difference between the mean of UNL and BNL. It is found that the average DPR of UNL is higher than that of BNL.

2. Second Hypothesis

Null Hypothesis (H₀):

- H₀:
1. There is no significant difference between mean DPS of AFC and KFC
 2. There is no significant difference between mean DPR of AFC and KFC.

i.e. $H_0: \mu_1 = \mu_2$

Alternative Hypothesis (H₁):

- H₁:
1. There is significant difference between mean DPS of AFC and KFC.
 2. There is significant difference between mean DPR of AFC and KFC.

i.e. $H_1: \mu_1 \neq \mu_2$

Table 4.12**Result of t-test between the Finance Companies**

Variables	Calculated value(t)	Tabulated Value $ t_{0.05(4)} $	Null Hypothesis	Inference
Average DPS	20.15	2.776	Accept	Significant
Average DPR	1.61	2.776	Accept	Significant

(Source: Appendix III)

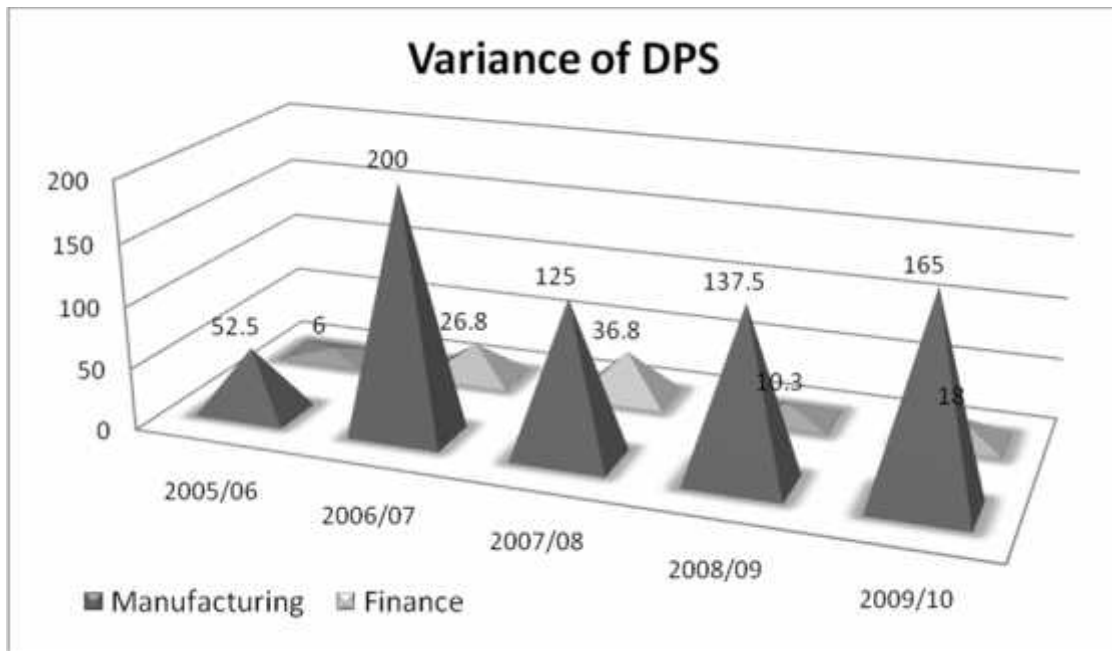
Above table shows that the calculated average DPS t-value is less than that of tabulated value at 5% level of significance and 4 degree of freedom. So, Null Hypothesis (Ho) is accepted and alternate Hypothesis (H1) is rejected. That means there is no significant difference between the mean DPS of AFC and KFC .It is found that the average of AFC is more than that of KFC.

Likewise, the table shows that the calculated average DPR t-value is less than that of tabulated value at 5% level of significance and between the 4 degree of freedom. So, Null Hypothesis (Ho) is accepted and alternate Hypothesis (H1) is rejected. That means there is no significant difference between the mean DPR of AFC and KFC .It is found that the average DPR of AFC is higher than that of KFC.

4.3.2 Analysis of Variance ANOVA**A. Analysis of Variance of DPS****Table no. 4.13**

Years	Pooled average	
	Manufacturing	Finance Companies
2005/06	52.5	6
2006/07	200.0	26.8
2007/08	125.0	36.8
2008/09	137.5	10.3
2009/10	165.0	18.0

Source Appendix II



Null Hypothesis:

H_0 : There is no significant difference among the DPS of manufacturing Sector, and Finance Sector.

i.e. $H_0: \mu_1 = \mu_2$

Alternative Hypothesis:

H_1 : There is no significant difference among the DPS of manufacturing Sector, and Finance Sector.

i.e. $H_1: \mu_1 \neq \mu_2$

Computation of test statistic: F

Sum of the squares of variation between samples (SSC) = 37126.81

Sum of the squares of variation within samples (SSE) = 14039.16

Total Sum of Squares (SST) = 51165.97

Table no. 4.14
ANOVA of DPS

Sources of Variation	Sum of Square(SS)	Degree of Freedom	Mean Sum of Square	F-Ratio
Between Sample	SSC=37126	k-1=3-1 =2	MSC=SSC/(k-1)=18563.41	F=MSC/MSE =15.87
Within Sample	SSE=14039.16	n-k=15-3 =12	MSE=SSE/(n-k)=1169.93	
Total	SST=51165.97	n-1=15-		

Tabulated $F_{0.05 (2, 12)} = 3.89$

Decision: Since the tabulated value of F at 5% level of significance for d.f. (2, 12) d.f. is less than calculated value. Null Hypothesis (H_0) is rejected. That means there is significant difference among the DPS of Manufacturing Companies and Finance Companies at 5% level of significance. It indicates that the DPS of the different sectors are not similar in pattern. The average DPS of manufacturing is more than that of sector and financial institutes.

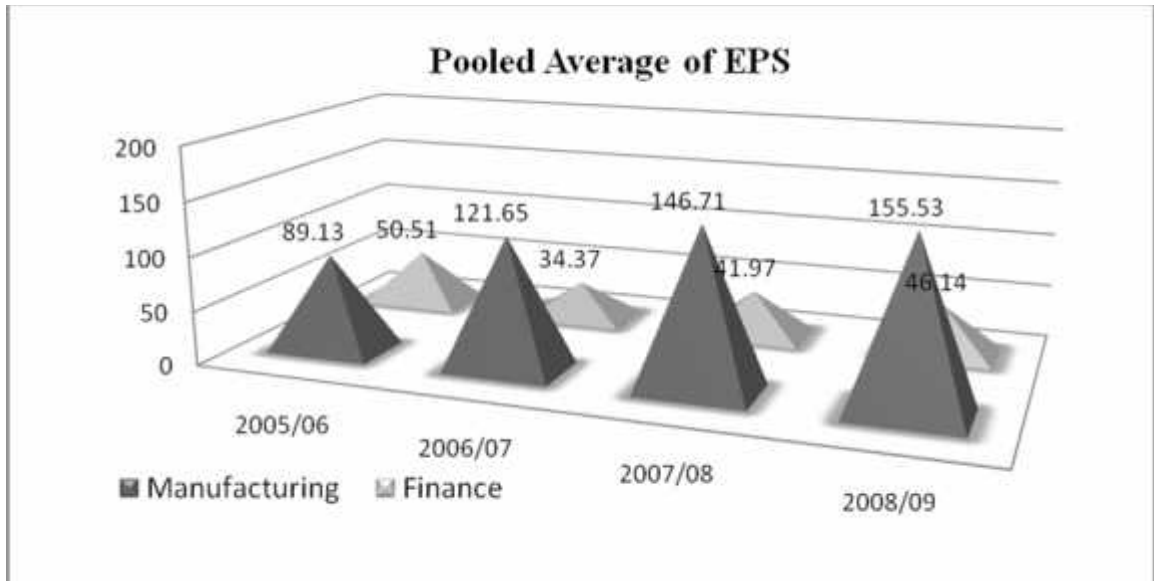
Finance Companies at 5% level of significance. It indicates that the DPS of the different sectors are not similar in pattern. The average DPS of manufacturing is more than that of sector and financial institutes.

B. Analysis of Variance of EPS

Table no. 4.15
Pooled Average of EPS

Years	Pooled average	
	Manufacturing	Finance Companies
2005/06	89.13	50.51
2006/07	121.65	34.37
2007/08	146.71	41.97
2008/09	155.53	46.14
2009/10	120.11	21.14

(Source: Appendix II)



Null Hypothesis (H_0):

H_0 : There is no significant difference among the EPS of Manufacturing Sector, and Finance Sector.

i.e. $H_0: \mu_1 = \mu_2$

Alternative Hypothesis (H_1):

H_1 : There is no significant difference among the EPS of Manufacturing Sector, and Finance Sector.

i.e. $H_1: \mu_1 \neq \mu_2$

Computation of test statistic: F

Sum of the squares of variation between samples (SSC) = 28100.86

Sum of the squares of variation within samples (SSE) = 32366.18

Total Sum of Squares (SST) = 60467.04

Table no. 4.16
ANOVA of EPS

Sources of Variation	Sum of Square(SS)	Degree of Freedom	Mean Sum of Square	F-Ratio
Between Sample	SSC=28100.86	k-1=3-1 =2	MSC=SSC/(k-1) =14050.43	F=MS C/MSE =5.21
Within Sample	SSE=32366.18	n-k=15-3 =12	MSE=SSE/(n-k) =2697.18	
Total	SST=60467.04	n-1=15-1		

(Tabulated $F_{0.05(2, 12)} = 3.89$)

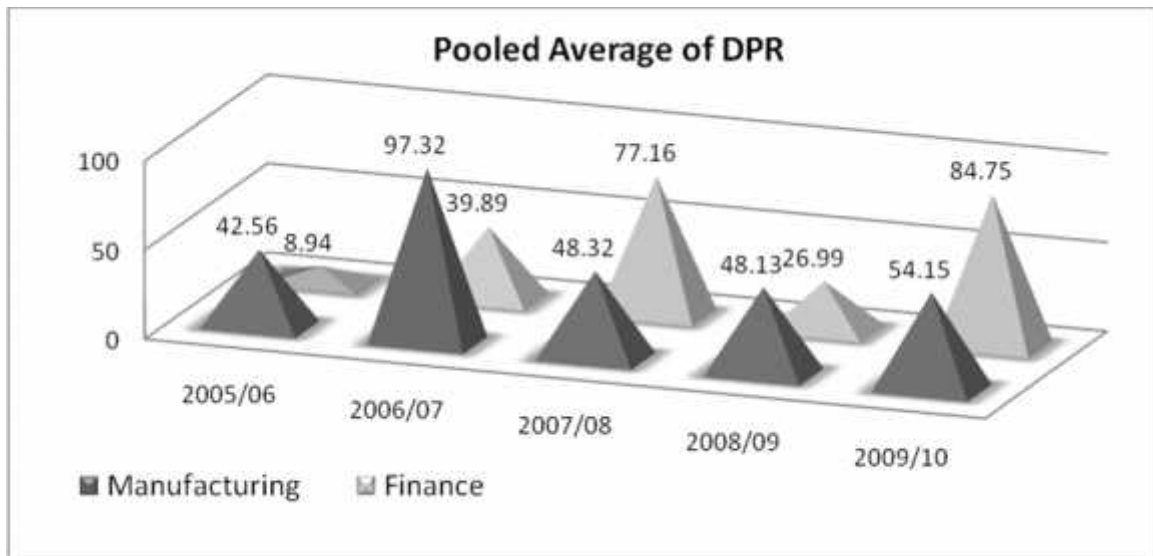
Decision: Since the tabulated value of F at 5% level of significance for (2, 12) d.f. is less than calculated value. Null Hypothesis (H_0) is rejected. That means there is significant difference among the EPS of Manufacturing Companies and Finance Companies at 5% level of significance. It indicates that the EPS of the different sectors are not similar in pattern. The average EPS of financial is found more than that of manufacturing sector and sector.

C. Analysis of Variance of DPR

Table no. 4.17
Pooled Average of DPR

Years	Pooled average	
	Manufacturing Companies	Finance Companies
2005/06	42.56	8.94
2006/07	97.32	39.89
2007/08	48.32	77.16
2008/09	48.13	26.99
2009/10	54.15	84.75

(Source: Appendix II)



Null Hypothesis (H₀):

H₀: There is no significant difference among the DPR of Manufacturing Sector, and Finance Sector.

i.e. $H_0: \mu_1 = \mu_2$

Alternative Hypothesis (H₁):

H₁: There is no significant difference among the DPR of Manufacturing Sector, and Finance Sector.

i.e. $H_1: \mu_1 \neq \mu_2$

Computation of test statistic: F

Sum of the squares of variation between samples (SSC) = 2980.64

Sum of the squares of variation within samples (SSE) = 6668.88

Total Sum of Squares (SST) = 9649.52

Table no. 4.18
ANOVA of DPR

Sources of Variation	Sum of Square(SS)	Degree of Freedom	Mean Sum of Square	F-Ratio
Between Sample	SSC=2980.64	k-1=3-1 =2	MSC=SSC/(k-1)=1490.32	F=MSC/MSE =2.67
Within Sample	SSE=6668.88	n-k=15-3 =12	MSE=SSE/(n-k)=2697.18	
Total	SST=9649.52	n-1=15-1		

(Tabulated $F_{0.05(2, 12)} = 3.89$)

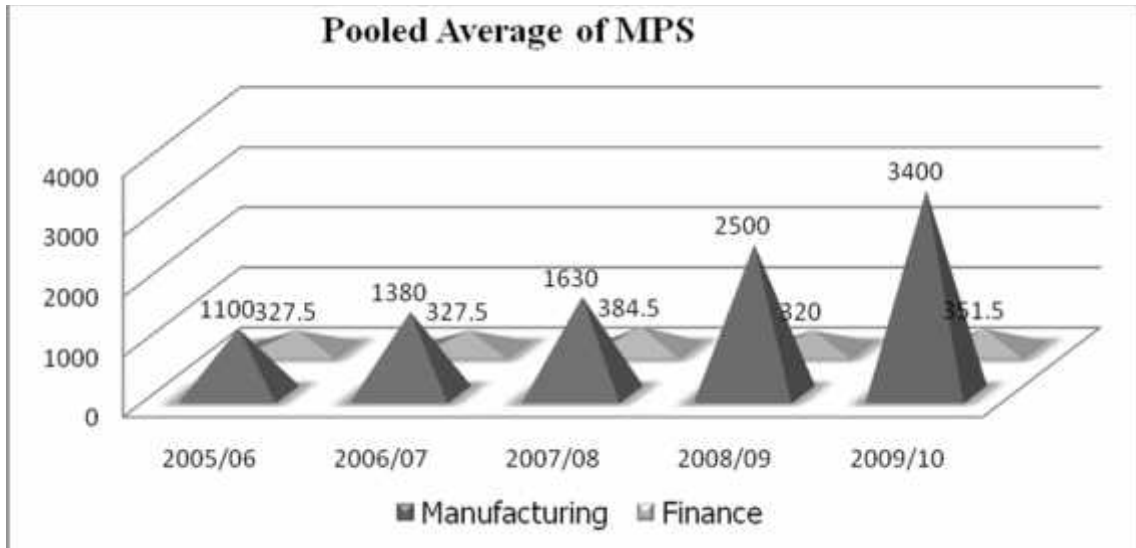
Decision: Since the tabulated value of F at 5% level of significance for (2, 12) d.f. is less than calculated value. Null Hypothesis (H_0) is rejected. That means there is significant difference among the DPR of Manufacturing Companies and Finance Companies at 5% level of significance. It indicates that the EPS of the different sectors are not similar in pattern. The average DPR of manufacturing sector is found more than that of and financial sector.

D. Analysis of Variance of MPS

Table no. 4.19
Pooled Average of MPS

Year	Pooled Average	
	Manufacturing Companies	Finance Companies
2005/06	1100	327.50
2006/07	1380	327.50
2007/08	1630	384.5
2008/09	2500	320.0
2009/10	3400	351.50

(Source: Appendix II)



Null Hypothesis (H_0):

H_0 : There is no significant difference among the DPR of Manufacturing Sector, and Finance Sector.

i.e. $H_0: \mu_1 = \mu_2$

Alternative Hypothesis (H_1):

H_1 : There is no significant difference among the DPR of Manufacturing Sector, and Finance Sector.

i.e. $H_1: \mu_1 \neq \mu_2$

Computation of test statistic: F

Sum of the squares of variation between samples (SSC) = 25996246

Sum of the squares of variation within samples (SSE) = 21287203

Total Sum of Squares (SST) = 47283451

Table no. 4.20
ANOVA of MPS

Sources of Variation	Sum of Square(SS)	Degree of Freedom	Mean Sum of Square	F-Ratio
Between Sample	SSC=25996246	k-1=3-1 =2	MSC=SSC/(k-1)=12998123	F=MSC/MSE =7.33
Within Sample	SSE=21287203	n-k=15-3 =12	MSE=SSE/(n-k)=1773934	
Total	SST=47283451	n-1=15-1		

(Tabulated $F_{0.05(2, 12)} = 3.89$)

Decision: Since the tabulated value of F at 5% level of significance for (2, 12) d.f. is less than calculated value. Null Hypothesis (H_0) is rejected. That means there is significant difference among the MPS of Manufacturing Companies and Finance Companies at 5% level of significance. It indicates that the EPS of the different sectors are not similar in pattern. The average MPS of manufacturing sector is found more than that of and financial sector.

4.4 Analysis and Presentation of Primary Data

The Research is not much effective without the primary analysis. So we made the questionnaire and distribute it to the manger level officer to fill and help for the research. The questionnaire was distributed randomly to the 10 customer of selected companies and requested to fill their own sentiment. So the 40 respondent are the sample population for the primary research. The following analysis is belongs to the analysis according to their answers by the respondents.

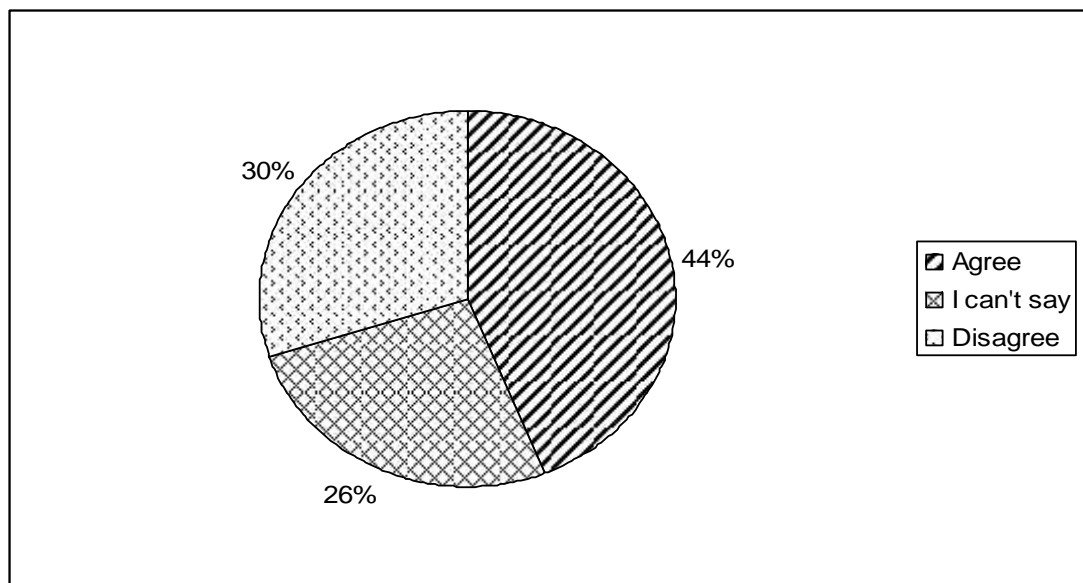
1) Commitment of the employees

The following table shows the percentage of the employees belongs to the sample companies.

Companies	Agree (in %)	I can't say (in %)	Disagree (in %)
UNL	40	45	15
BNL	35	25	40
KFC	50	15	35
AFC	50	20	30
Total %	43.75%	26.25%	30%

(Source: Primary Survey)

Above data also analyzed by following pie chart.



From the above table we conclude that the employees of the companies are more committed. But the most of the employees are also not committed at their work. These data emphasize to the companies to increase their welfare activities or employees facilities. 30% of the total samples are not committed.

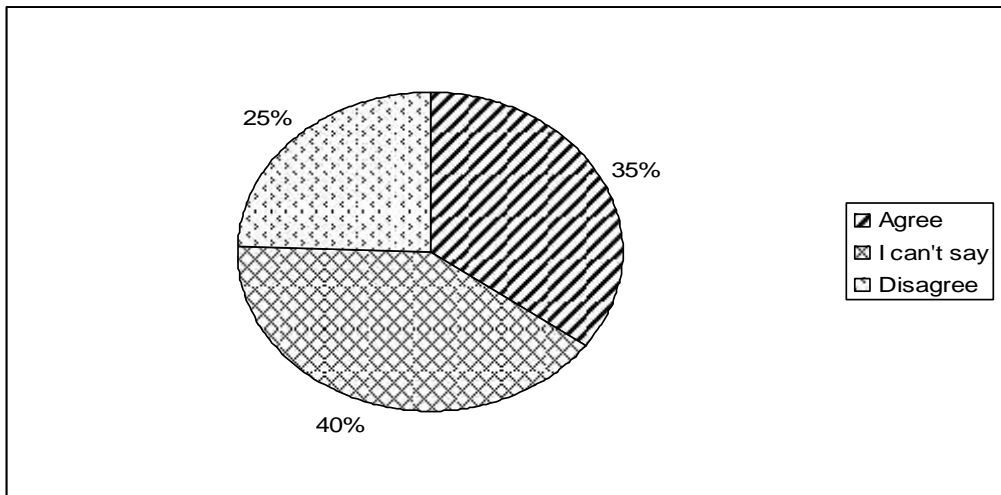
2) Share holder's satisfaction

The shareholders are the real owners of the company, so without maintaining their interest and satisfaction its tuff to run the business. The following data presents the percentages of the shareholder satisfy.

Companies	Agree (in %)	I can't say (in %)	Disagree (in %)
UNL	48	20	32
BNL	22	47	31
KFC	33	51	16
AFC	37	44	19
Total %	35%	40.5%	24.5%

(Source: Primary Survey)

The data given in the above table is presented in given chart below.



The above data shows that the many of the shareholders of the sample company are not satisfy and most of them are in dilemma about the expectation in company. The 40% shareholders are saying that they are not satisfied yet or not satisfied.

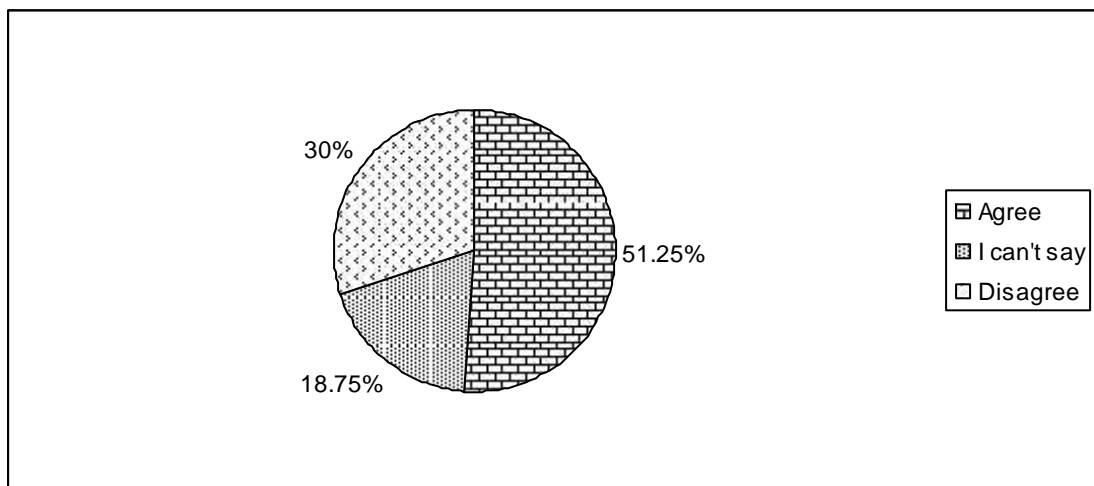
3) Improvement of liquidity position through dividend Policy

The following table describes about the argument about the customers about improvement of liquidity position of company is possible or not.

Companies	Agree (in %)	I can't say (in %)	Disagree (in %)
UNL	51	25	24
BNL	45	16	39
KFC	47	21	32
AFC	62	13	25
Total %	51.25%	18.75%	30%

(Source: Primary Survey)

The above also explained through the following chart.



The above table shows that the 51.25 respondents are agree about the dividend policy that helps the liquidity position of the company. And 30% respondents are disagreeing about that statement. Above table also indicates that the financial company's customers are more agreeable than the manufacturing companies about the dividend policy's impact on their company's liquidity position. 62% of the AFC customers believe that the dividend policy should be improved to improve liquidity position.

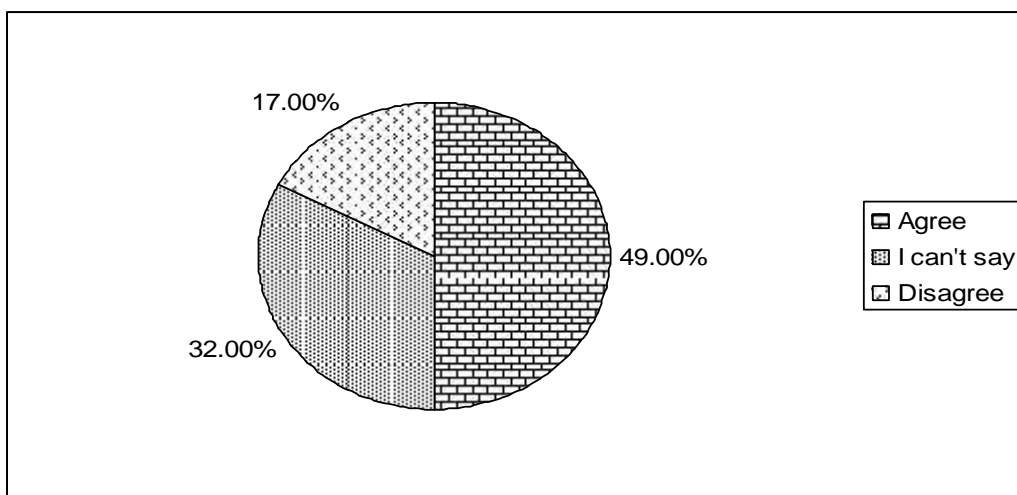
4) Effectiveness of stock dividend

Most of the companies think that it is the most compatible and sufficient to provide the stock dividend instead of dividend. Following table denotes the arguments about the stock dividend.

Companies	Agree (in %)	I can't say (in %)	Disagree (in %)
UNL	39	45	16
BNL	55	23	12
KFC	52	36	12
AFC	48	25	27
Total %	48.5%	32.25%	16.75%

(Source: Primary Survey)

The above also explained through the following chart.



From the above table 48.5% customer among 40 from the four selected companies believe that providing the stock dividend rather than dividend, because it also improves the shareholders wealth. But the 32.25% customer

think that they don't know about the stock dividend effective or not and 16.75% are not agreed for the stock dividend.

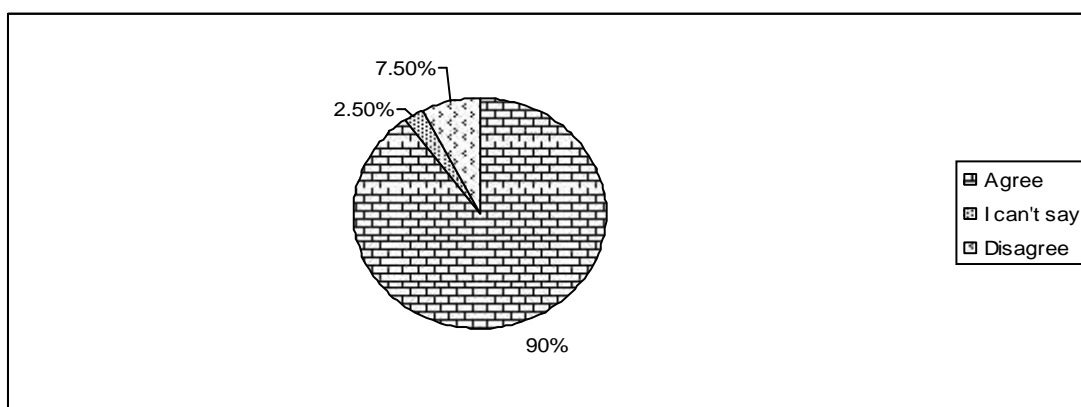
5) Effect of Government policy and Political Situation

Government and political parties are playing the big role in the business and financial organization in Nepal. The following table shows the view about its effects on selected companies for sample study.

Companies	Agree (in %)	I can't say (in %)	Disagree (in %)
UNL	86	2	12
BNL	90	3	7
KFC	89	5	6
AFC	95	-	5
Total %	90%	2.5%	7.5%

(Source: Primary Survey)

The above also explained through the following chart.



The condition of Nepal government and political situation is well watched by everyone in Nepal. So the 90% of the respondents are agreeable about to the view that dividend policy of the company is affected by the political situation and government policy. 7.5% think that it doesn't affect the company's dividend policy.

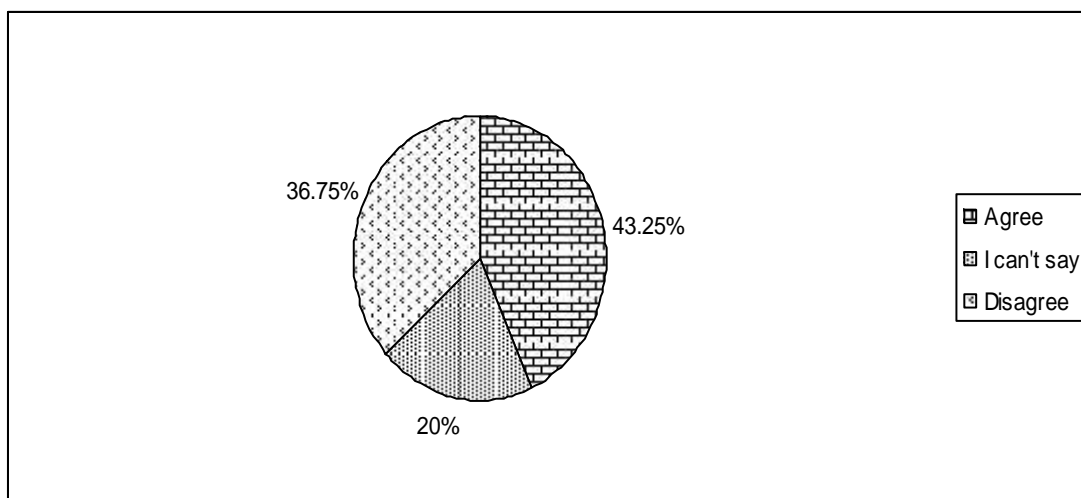
6) Current DPS position

Following table shows the view of the customers about the current DPS position of the related company is satisfactory or not.

Companies	Agree (in %)	I can't say (in %)	Disagree (in %)
UNL	48	21	31
BNL	22	25	53
KFC	47	19	34
AFC	56	15	29
Total %	43.25%	20%	36.75%

(Source: Primary Survey)

The above also explained through the following chart.



The customer of AFC are more agree about its DPS position is satisfactory. And total 43.25% customers are think it is satisfactory position of their related companies. And BNL's customers are not satisfied about its DPS position' so 53% are not agreed about it. Overall 20% customers have not any decision to say about the DPS position.

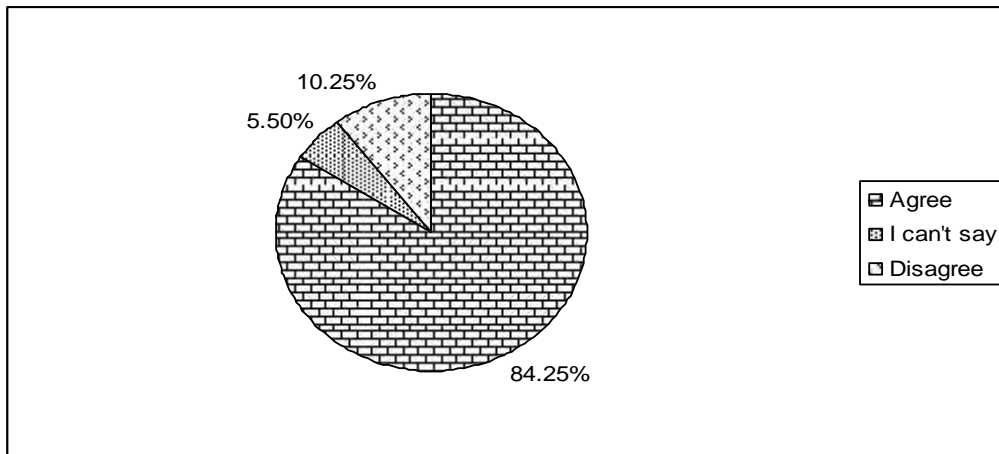
7) Current dividend policy

The current dividend policy also changeable according to its circumstances and surrounded environment. The views about the need of changing the policy is shown table below.

Companies	Agree (in %)	I can't say (in %)	Disagree (in %)
UNL	80	11	9
BNL	75	6	19
KFC	92	2	6
AFC	90	3	7
Total %	84.25%	5.5%	10.25%

(Source: Primary Survey)

The above also explained through the following chart.



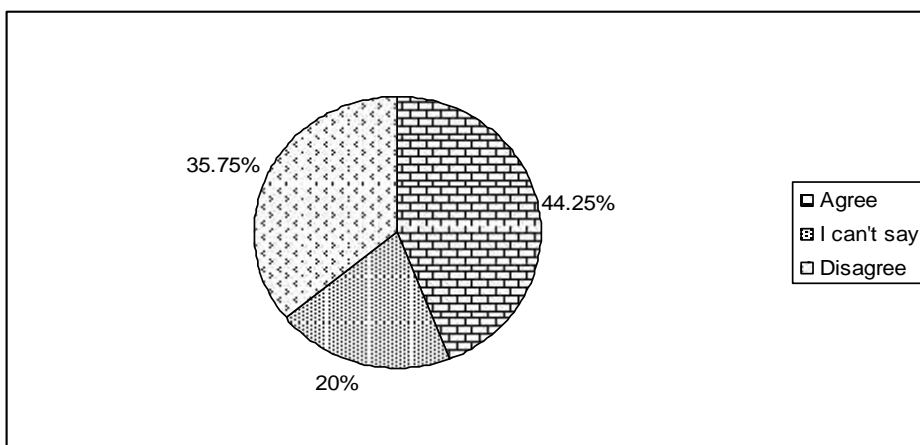
Most of the customers, ie. 84.25% believes and recommend that it's necessary to change the dividend policy according to the changes of the environment.

8) Position on Stock market

Following table shows that the view of customers about the current dividend policy is efficient or not to change the company's position through its current dividend policy.

Companies	Agree (in %)	I can't say (in %)	Disagree (in %)
UNL	47	21	31
BNL	56	25	53
KFC	48	19	34
AFC	26	15	25
Total %	44.25%	20%	35.75%

(Source: Primary Survey)



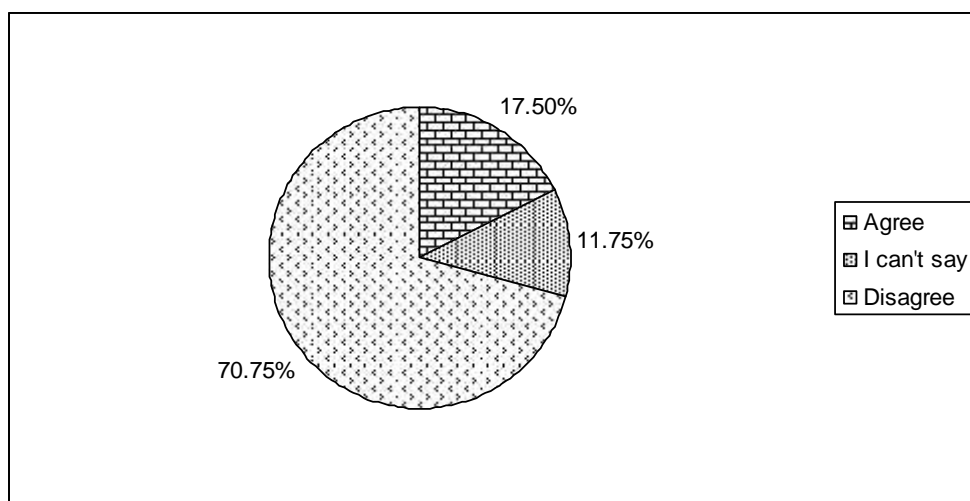
The above table shows that there is high percentage (84.25%) of agreed customer of about the dividend policy increase the market position of the company.

9) Fair Valuation of stock

In perspective of Nepal the stock valuation is mostly analyzed as artificial value. The following table shows about the customers view about it.

Companies	Agree (in %)	I can't say (in %)	Disagree (in %)
UNL	12	12	76
BNL	10	9	81
KFC	25	16	59
AFC	23	10	67
Total %	17.5%	11.75%	70.75%

(Source: Primary Survey)



Valuation of stock may be the related factor to many stakeholders. But according to the customers, they think that the valuation of the stock in Nepalese companies' perspective is not fairly done. From the above table the 70.75% customers believe that the valuation is not valued fairly. And only 17.5% customers say that they believe the companies valued their stock fairly.

The Primary research has been undertaken to encounter the views of customer about the companies whom they are related. The research shows that the KFC and AFC are have the more committed employees than others and BNL have to improve its employee welfare other program to the employee. UNL has the more satisfied shareholders than the other three companies. And the BNL has the least satisfied shareholder. The most of the customer think that the providing stock is good for company and everybody believe that the dividend policy is no more acceptable and it should change in future. The customer agreed that the valuation of stock is not fairly valued.

4.5 Major findings

The major findings obtained from the secondary data analysis are stated as follows:

1. Average market price per share of, BNL, UNL, KFL and AFC is Rs.581.8, 2002, 189.20 and 460.20 respectively mean MPS of UNL is greater than other companies. Higher market price creates the positive attitude of the investors towards the manufacturing company, which consequently attracts the investor to invest in such high valued shares.
2. UNL has the lowest fluctuation in the price currently paid by the market for each rupee reported by EPS followed by BNL. The KFC has the highest fluctuation in this regard as dedicated by P/E ratio.
3. When dividend amount is considered as return on market price of share, the highest is 14.8% of UNL and lowest of BNL is 0.34. The fluctuation of DYR of BNL is 123.06%. It is found that the company with foreign investment is paying high cash dividend. The dividend amount paid by the listed companies appears very low. The average DYR is 5.73% only.
4. EPS of BNL is fluctuating trend while that of UNL is in increasing trend; EPS of financial companies is also in fluctuating trend.
5. The average highest DPR is 108.45 of UNL. There is high fluctuation in DPS, BNL, as depicted by CV of 122.34% whereas lowest fluctuation CV is 41.09% of UNL.
6. Dividend payment is not regular and attractive phenomena in Nepalese listed companies, although some companies give regular dividend. UNL has the highest DPS of 270 among four listed companies, UNL have been found to maintain its DPS above the industry average. It indicates that they pay

higher dividend as compared to other companies and it creates positive attitude of the investors. UNL has the highest DPS so market value of the share of DPS is higher. But BNL has lowest DPS of Rs. 2 only. The coefficient of variation of BNL which indicate relative dispersion, is highest i.e. The DPS of two manufactures Companies are highest and lowest. So the more value of share of the manufacture companies may be different. This clearly indicates that companies do not have any stable and consistent dividend practice.

7. Profitability of common shareholders investment is better in UNL then other companies as they are found maintain their EPS above industry average.
8. The earning yield of UNL ranks the highest (i.e. 13.36) while the earning yield of BNL is the lowest (i.e. 5.16) and of the companies lies in between these two.
9. When EPS and MPS are taken into consideration, it is found that positive correlation exists in all companies. The correlation of all the companies is uncertain since $r < 6PE$.
10. The study of impact of cash dividend on market price of share reveled that dividend per share has positive impact on market price of share of BNL and UNL i.e. 0.92 which means 92% of change in MPS is affected by change in last dividend and the rest 8% is due to unknown factor.
11. T-test calculation at 5% level of significance, point out that there is a significant difference between the DPS. Likewise there is significant difference between the DPS and DPR of manufacturing sector (UNL and BNL). Again there is no significant difference between DPR and DPS of AFC and KFC.

12. When EPS and DPS are taken into consideration, it is found that positive correlation exists in all companies except BNL, BNL has negative correlation between EPS and DPS whereas it shows KFC has low degree of positive correlation between EPS and DPS.
13. ANOVA of MPS indicates that there is significant difference among the MPS of manufacturing companies and finance companies at 5% level of significance. That means of MPS of these sectors are not similar in pattern.
14. ANOVA of EPS indicates that there is significant difference among the EPS of manufacturing companies and finance companies of 5% level of significance. That means, of these sectors are not similar in pattern.
15. ANOVA of DPR indicates that there is no significant difference between the DPR of manufacturing companies and financial companies at 5% level of significance. That means DPR of these sectors are similar in pattern.
16. ANOVA of DPS indicates that there is significant difference among the DPS of manufacturing companies and financial companies at 5% level of significance. That means, DPS of these sectors are not similar in pattern.
17. The Primary research shows that the KFC and AFC are have the more committed employees than others and BNL have to improve its employee welfare and other program to the employee.
18. The most of the respondent think that the providing stock is good for company and everybody believe that the dividend policy is no more acceptable and it should change in future. The customer agreed that the valuation of stock is not fairly valued.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The effects of dividend policy in a market price of stock are a subjective of long standing argument. But still, there is no single conclusive result regarding the relation between dividend payment and market price of the stock (share). The payment of dividend to shareholder is an effective way to attract new investors and retain present investors. Once a company makes a profit, they must decide on what to do with those profits. They could continue to retain the profits within the company, or they could pay out the profits to the owners of the firm in the form of dividends. Once the company decides on whether to pay dividends, they may establish a somewhat permanent dividend policy, which may in turn impact on investors and perceptions of the company in the financial markets. What they decide depends on the situation of the company now and in the future. It also depends on the preferences of investors and potential investors. Dividend policy is one of the three major decisions of the financial management. The dividend refers to that portion of the firm's net earnings, which is paid out to the shareholders as a return for their investments.

Since 1984, when the government of Nepal has adopted economic liberalization and open market policy, many JV Banks, finance companies and insurance companies are established in Nepal. These institution got opportunity and appropriate environment to expand their activities, it is because the initially established financial institutions are unable to supply credit needs and meet the market expectation that market activities towards the growth position. The stockholders have a high desire and expectation that market price of share will be higher than net worth and getting high percentage of dividend from earnings. So, distributing dividend to the shareholders is effective way to achieve the trust of investors and encourage them to invest in shares.

In many cases, companies choose to explicitly state the provisions within the dividend policy. This is definitely to the advantage of the shareholder, as a well defined policy makes it much easier to project the amount of payout profits generated for the period under consideration and thus be able to determine the size of the dividends that will be issued. This study mainly aims the prevailing practices of listed companies regarding dividend payment. The study is mainly focused to access the dividend practices of different banks, finance companies and insurance companies. Instability of dividend and haphazard payout ratio is the most common practice of Nepalese companies. Companies do not adequately maintain cash balance for dividend payment. So, it covers some specific objectives to find out the relationship between other financial indicators and also to find out the appropriate dividend policies for different companies.

The objective was to examine the impact of dividend policy on market price of share manufacturing companies and financial institution. For this purpose, various financial and statistical tools were developed to analyze the data from banks. Using the pooled cross section data of companies from many observations, researcher attempted to determine the impact of different variables in determining the market price of share. The research is based on the secondary data. This study has been primarily focused to evaluate the resultant impacts of dividend on market price of share. The study is mainly based on the secondary data of four companies which are listed in NEPSE. They are categorized in two groups, manufacturing companies and finance companies. These groups represent their own sectors. The last five years data from FY 2005/06 to 2009/10 are taken for study. The reliability of conclusions made in this study depends upon the accuracy of secondary data.

When the dividend policy is well defined and documented, it is easy for the shareholder to obtain a written copy and thus be fully informed as to how the policy works. Three major aspect of the study are discussed in this chapter. At

the beginning all the findings have been made summarized and same conclusions have been drawn up to the basis of findings. An attempt is also made to present the gap and the factors to cause those gaps. This chapter is very important in the sense that.

- (i) It presents the situation of the companies,
- (ii) It summarize the presented research,
- (iii) It shows the result what was observed during the research,
- (iv) It concludes the research's findings in an understandable form and
- (v) It provides clues of suggestions to the concerned authorities as well as practitioners and academicians found throughout the research.

The research suggests the related authorities. The recommendation is presented in the last part of this chapter considering the major findings and gaps fund. The recommendations presented will certainly be milestone to improve existing condition in this field.

5.2 Conclusion

The primary objectives of investors investing in stocks are to earn dividend. But the earning of shareholders can be dividend as dividend gain and capital gain. High payout statistic the dividend need whereas increase in market price of stock increases capital gain. Therefore, the firm should make a proper balance between dividend distribution and retention of earning. Basically, an investor expect two types of returns i.e. capital gain and dividend by investing in equity capital or ordinary share. So payment of the dividend to the shareholders is the effective way to attract new investors and retain current investors to invest in share. Therefore clearly defined and effectively managed dividend policy is required in all the commercial banks to comply shareholders expectations with that of corporate growth from internally generated funds. Normally, if dividend percentage increases; market price of share also increases so the fund that could not be used due to the lack of investment

opportunities would be better paid as dividend since shareholders might have investment opportunities elsewhere.

So dividend policy decision is undoubtedly one of the three major decisions of the financial management. In Nepal, only a few listed companies have been paying regular dividends to their shareholders. Further companies have not been following stable dividend payout policy. Above major findings led this study conclude that the earnings and dividend payout of manufacturing companies are comparatively high than finance companies and it is said to be satisfactory in Nepalese context. On the other hand, the dividend payout ratio of listed companies in Nepal has not been able to distribute fair dividends. None of these companies have well defined and appropriate policy regarding dividend payment.

The insignificant relationship between DPS and other variables indicates that dividend policy of all these companies is not better. This study rests to conclude that the cash dividend can't be said as a sole factor to affect price of share. But there are some other factors like earning power, bonus shares, information value of dividend decision etc. That also causes the share price fluctuation. In an imperfect market mechanism like Nepalese Share Market, the security brokers, other market makers and the rumors they spray in the market have also significant role in share price fluctuation.

5.3 Recommendation

These recommendations may also have some repercussions, but there is no doubt of these measures to improve the existing conditions. The following suggestions are recommended for the problems on the issue of Dividend which are find out from the analysis of data. Proponents believe that there is a dividend policy that strikes a balance between current dividends and future growth that maximizes the firm's stock price. Although, this study is concerned with dividend practices of Nepalese Financial Institution, it may be appropriate

to provide a package of suggestion in the light of major findings and conclusions.

The specific recommendations based on major findings are as follows:

1) Implementation of Strategic dividend policy practically

The analysis reveals that there is inconsistency in dividend payment policy. They use the conservative or ad-hoc policy to distribute dividend. The companies must apply a certain dividend policy for a long run from which investors can take decisions on buying the share of a company. The appropriate dividend policy helps to increase the prestige of the companies in the market and investors. On taking the decision regarding to dividend, management must be acted rationally and convince the shareholder on time of declaring the dividend 'about policy adopted in annual general meeting.

2) Utilization and Mobilization of the Funds and Opportunities

Some believe that company profits are best re-invested back into the company: research and development, capital investment, expansion, etc. Proponents of this view (and thus critics of dividends per se) suggest that an eagerness to return profits to shareholders may indicate the management having run out of good ideas for the future of the company. Some studies, however, have demonstrated that companies that pay dividends have higher earnings growth, suggesting that dividend payments may be evidence of confidence in earnings growth and sufficient profitability to fund future expansion. The market price is seen higher than dividend payment. The companies can solve the problem by raising the funds from market. The companies can expand the activities and utilize the capital in profitable opportunities which help to build faith from public and increase the capacity and performance of the companies.

3) Treating Business Environment

The dividend policy is depending on the business growth that may be affected by the environment of the market. There are challenges and threats in front of the companies because of internal and external environment. The companies must have long-term vision towards earnings, dividend payment and financing through retained earnings for profitable opportunities. Therefore, there must be balance in between the benefits for investors and companies management. The competition between companies in good, service and share market is higher due to membership of Nepal in World Trade Organization and preparation to open capital market for foreign investors. The profitable opportunities are also created because of these circumstances so, company should apply appropriate dividend policy to overcome the threats and challenges and grab the opportunities.

4) Communication and Information flow

Information need to provide timely by concerned companies and simplified and updated by concerned bodies. A separate information centre must be established with enough resource, rights and obligation, to collect, analyze, simplify, supply, update the information and to collect feedback of the information in those concerned bodies. A separate supervisory unit must be made to monitor, supervise evaluate their performance. Internet websites can be used to provide information about stock market and Concern Company with update it time by time which helps the public to get required information timely. Therefore, a shareholder receives a dividend in proportion to their shareholding.

5) Choice to the shareholders

There are only two form of dividend used in practice i.e., stock dividend & cash dividend. They don't give choice to the shareholder of other form of dividend like bond dividend, property dividend, script dividend etc. Whether to distribute the stock dividend or cash dividend should be decided on the desire

and behalf of the shareholders;, not only from the side of the management. Other forms of dividend can be also proposed to the shareholders by the management in the annual general meeting for approval, if possible,

6) Ending Balance activities

MPS, DPS, EPS, fluctuates widely of the companies. To remove this problem companies need to make appropriate plan to achieve target earning, distribute target dividend, invest target amount by selecting profitable activities and increase target net wealth which help to maintain planned MPS. To achieve these balance activities need to be performed with long term plan concerning external and internal environment. Dividend must be paid by concerning the economic status and desire of future prosperity of the shareholders. Time value of money of shareholders need to increase net worth and presence of the liquidity is also other factors which must be considered while proposing the dividend. The internal information and survey for shareholders economic conditions with their desires need to perform to take accurate dividend decisions.

7) Legal rules and regulation

The study reveals that the government makes a proper business environment because political instability has affected the financial indicators of the firms. The legal rules are not enough regarding to dividend. Binding legal rules with enough flexibility is needed regarding dividend payment. Most of the companies pays less dividend however, theirs earning are higher. To bind companies to pay dividend, the present laws must be amended by initial works done jointly by concerned parties. The analysis reveals that there is lack of proper legal provision regarding the dividend payment.

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Appendices

Appendix I

Basic Data Using Cash Dividend only

BNL

Year	EPS(X)	DPS(Y)	MPS(Z)	DPR
2005/06	25.36	5	700	19.72
2006/07	37.8	0	554	0
2007/08	34.76	0	635	0
2008/09	10	0	500	0
2009/10	10	5	520	19.72
Total	148.21	10	2909	

UNL

Year	EPS(X)	DPS(Y)	MPS(Z)	DPR
2005/06	152.9	100	1100	65.40
2006/07	205.5	400	1380	194.65
2007/08	258.7	250	1630	96.66
2008/09	285.7	275	2500	96.25
2009/10	364	325	3400	98.29
Total	1266.8	1350	10010	

AFC

Year	EPS(X)	DPS(Y)	MPS(Z)	DPR
2005/06	67.17	12	420	17.87
2006/07	65.97	52.632	450	79.78
2007/08	65.97	63.158	431	95.74
2008/09	65.97	10.53	500	15.95
2009/10	22.254	21.05	500	94.10
Total	287.33	159.37	2301	

KFC

Year	EPS(X)	DPS(Y)	MPS(Z)	DPR
2005/06	33.85	0	235	19.72
2006/07	2.77	0	205	0
2007/08	17.97	10.527	138	58.58
2008/09	26.3	10	140	38.02
2009/10	20.03	15	203	74.89
Total	100.92	35.527	921	

Appendix II

Calculation of Sector wise pooled Average (DPS)

Year	Manufacturing Sector		Pooled Average	Financial Sector		Pooled Average
	BNL	UNL		KFC	AFC	
2005/06	5	100	5205	0	12	6
2006/07	0	400	200	0	53.63	26.81
2007/08	0	250	125	10.53	63.16	36.84
2008/09	0	275	137.5	10	10.53	10.26
2009/10	5	325	165	15	21.06	18.02

Calculation of Sector wise pooled Average (EPS)

Year	Manufacturing Sector		Pooled Average	Financial Sector		Pooled Average
	BNL	UNL		KFC	AFC	
2005/06	25.36	152.90	89.13	33.85	67.17	50.510
2006/07	37.820	505.50	121.65	2.77	65.97	41.978
2007/08	34.70	258.7	146.71	17.97	65.97	41.97
2008/09	24.96	285.90	155.33	26.30	65.97	46.13
2009/10	25.36	364.00	194.68	20.03	22.25	21.14

Calculation of Sector wise pooled Average (MPS)

Year	Manufacturing Sector		Pooled Average	Financial Sector		Pooled Average
	BNL	UNL		KFC	AFC	
2005/06	700	1100	900	235	420	327.50
2006/07	554	1380	967	205	450	327.5
2007/08	63.5	1630	1132.5	138	431	284.5
2008/09	500	2500	1500	140	500	320
2009/10	520	3400	1960	203500	351.5	21.14

Calculation of Sector wise pooled Average (DPR)

Year	Manufacturing Sector		Pooled Average	Financial Sector		Pooled Average
	BNL	UNL		KFC	AFC	
2005/06	19.72	65.40	42.50	-	17.87	8.94
2006/07	-	134.65	97.35	-	79.78	39.89
2007/08	-	96.66	48.33	58.58	95.741	77.16
2008/09	-	96.25	48.13	38.02	15.96	26.99
2009/10	19.72	89.25	54.51	74.89	94.61	84.75

Appendix-III

Computation of t- test with Manufacturing Companies

DPS

BNL(X)	UNL(Y)	Diff.(D)=x-y
5	100	-95
0	140	-140
0	250	-250
0	275	-275
5	325	-320
		D=1080

$$D = 1080$$

$$D^2 = 269150 \quad (D^2 = D_1^2 + D_2^2 + D_3^2 + D_4^2 + D_5^2)$$

$$\bar{D} = 216$$

$$n = 5$$

$$S.D. = \sqrt{\frac{\sum D^2 - n(\bar{D})^2}{n-1}}$$

$$= 1235.03$$

$$SE(\bar{D}) = \frac{s}{\sqrt{n}}$$

$$= 552.32$$

$$t = \frac{\bar{D}}{SE(\bar{D})}$$

$$= -0.39$$

Appendix IV

Computation of t- test with Finance Companies

DPS

AFC(X)	KFC(Y)	Diff.(D)=x-y
12	-	12
53.63	-	52.66
63.19	10.526	52.66
10.53	10	6.02
21.05	15	6.02
		D=123.84

$$D = 123.84$$

$$D^2 = 5735.71 \quad (D^2 = D_1^2 + D_2^2 + D_3^2 + D_4^2 + D_5^2)$$

$$\bar{D} = 24.77$$

$$n = 5$$

$$S.D. = \sqrt{\frac{\sum D^2 - n(\bar{D})^2}{n-1}}$$

$$= 25.87$$

$$SE(\bar{D}) = \frac{S.D.}{\sqrt{n}}$$

$$= 11.53$$

$$t = \frac{\bar{D}}{SE(\bar{D})}$$

$$= 2.15$$

Appendix V

DPR

AFC(X)	KFC(Y)	Diff.(D)=x-y
19.72	65.40	-45.68
-	194.65	-194.65
-	96.66	-96.66
19.72	89.29	-69.25
		D=-502.77

$$D = 502.77$$

$$D^2 = 4839.98 \quad (D^2 = D_1^2 + D_2^2 + D_3^2 + D_4^2 + D_5^2)$$

$$\bar{D} = 100.55$$

$$n = 5$$

$$S.D. = \sqrt{\frac{\sum D^2 - n(\bar{D})^2}{n-1}}$$

$$= 235.35$$

$$SE(\bar{D}) = \frac{s}{\sqrt{n}}$$

$$= 105.25$$

$$t = \frac{\bar{D}}{SE(\bar{D})}$$

$$= 0.96$$

Appendix VI

DPR

AFC(X)	KFC(Y)	Diff.(D)=x-y
17.87	-	17.87
79.8	-	79.8
95.74	-	79.80
15.96	38.08	-22.12
94.61	74.89	19.72
		D=132.43

$$D = 132.43$$

$$D^2 = 8946.42 \quad (D^2 = D_1^2 + D_2^2 + D_3^2 + D_4^2 + D_5^2)$$

$$\bar{D} = 26.48$$

$$n = 5$$

$$S.D. = \sqrt{\frac{\sum D^2 - n(\bar{D})^2}{n-1}}$$

$$= 1235.03$$

$$SE(\bar{D}) = \frac{s}{\sqrt{n}}$$

$$= 16.49$$

$$t = \frac{\bar{D}}{SE(\bar{D})}$$

$$= 1.61$$

Appendix VII

Correlation between EPS and DPS in manufacturing companies.

BNL

x (EPS)	y (DPS)	x ²	y ²	xy
25.36	5	643.13	25	126.8
37.8	0	1428.84	-	-
34.73	0	1206.173	-	-
24.96	0	623.001	-	-
25.36	5	643.13	25	126.8
x=148.21	y=10	x²=4544.275	y² = 50	253.6

$$\begin{aligned} \text{Mean of EPS } (\bar{X}) &= \frac{148.21}{5} \\ &= 29.64 \end{aligned}$$

$$\begin{aligned} \text{Mean of DPS } (\bar{Y}) &= \frac{10}{5} \\ &= 2 \end{aligned}$$

$$\text{Correlation } (r) = \frac{\sum xy - n\bar{x}\bar{y}}{\sqrt{\sum x^2 - n(\bar{x})^2} \sqrt{\sum y^2 - n(\bar{y})^2}}$$

$$r = \frac{253.6 - 5 \times 29.64 \times 2}{\sqrt{4544.25 - 5 \times (29.64)^2} \sqrt{50 - 5 \times (2)^2}}$$

$$r = -64$$

$$\begin{aligned} \text{Coefficient of Determination } (r^2) &= (-64)^2 \\ &= 0.41 \end{aligned}$$

$$\begin{aligned} \text{Probable Error (PE)} &= 0.6745 \times \frac{1-r^2}{n} \\ &= 0.6745 \times \frac{1-0.41}{5} \\ &= 0.1781 \end{aligned}$$

UNL

x (EPS)	y (DPS)	x ²	y ²	xy
152.9	100	23378.41	1000	15290
205.5	400	42230.25	160000	82200
258.7	250	66925.69	62500	64675
285.7	275	81624.49	75625	78567.5
364	325	132496	105625	118300
x =1266.8	y =1350	x²=346654.84	y² = 413750	359032.5

$$\begin{aligned} \text{Mean of EPS } (\bar{X}) &= \frac{1266.8}{5} \\ &= 253.6 \end{aligned}$$

$$\begin{aligned} \text{Mean of DPS } (\bar{y}) &= \frac{1350}{5} \\ &= 270 \end{aligned}$$

$$\text{Correlation } (r) = \frac{\sum xy - n\bar{x}\bar{y}}{\sqrt{\sum x^2 - n(\bar{x})^2} \sqrt{\sum y^2 - n(\bar{y})^2}}$$

$$r = \frac{359032.5 - 5 \times 253.36 \times 270}{\sqrt{346654.84 - 5 \times (253.36)^2} \sqrt{413750 - 5 \times (270)^2}}$$

$$r = 0.48$$

$$\begin{aligned} \text{Coefficient of Determination } (r^2) &= (0.48)^2 \\ &= 0.23 \end{aligned}$$

$$\begin{aligned} \text{Probable Error (PE)} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1-0.23}{\sqrt{5}} \\ &= 0.2321 \end{aligned}$$

Correlation between EPS and MPS in manufacturing companies.

BNL

x (EPS)	y (MPS)	x²	y²	xy
25.36	700	643.13	490000	17752
37.8	554	1428.84	306916	20941.2
34.73	635	1206.173	403225	22053.55
24.96	500	623.001	250000	12480
25.36	520	643.13	270400	113187.2
x=14821	y=2909	x²=4544.275	y² = 1720541	86413.95

$$\begin{aligned} \text{Mean of EPS } (\bar{x}) &= \frac{148.21}{5} \\ &= 29.64 \end{aligned}$$

$$\begin{aligned} \text{Mean of MPS } (\bar{y}) &= \frac{2909}{5} \\ &= 581.8 \end{aligned}$$

$$\begin{aligned} \text{Correlation } (r) &= \frac{\sum xy - n\bar{x}\bar{y}}{\sqrt{\sum x^2 - n(\bar{x})^2} \sqrt{\sum y^2 - n(\bar{y})^2}} \\ r &= \frac{86413.95 - 5 \times 29.64 \times 581.8}{\sqrt{4544.275 - 5 \times (29.64)^2} \sqrt{1720541 - 5 \times (581.8)^2}} \\ r &= 0.09 \end{aligned}$$

$$\begin{aligned} \text{Coefficient of Determination } (r^2) &= (0.09)^2 \\ r^2 &= 0.0081 \end{aligned}$$

$$\begin{aligned} \text{Probable Error (PE)} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1-0.0081}{5} \\ &= 0.2992 \end{aligned}$$

KFC

x (EPS)	y (MPS)	x ²	y ²	xy
33.85	235	1145.82	55225	7954.75
2.77	205	7.69729	42025	567.85
17.97	140	691.69	19600	3682
26.3	203	401.201	41209	4066.09
20.03	203	401.201	41209	4066.09
x=100.92	y=921	x²=2569.3072	y² = 177103	187050.55

$$\begin{aligned}\text{Mean of EPS } (\bar{x}) &= \frac{100.92}{5} \\ &= 20.184\end{aligned}$$

$$\begin{aligned}\text{Mean of MPS } (\bar{y}) &= \frac{921}{5} \\ &= 184.2\end{aligned}$$

$$\begin{aligned}\text{Correlation } (r) &= \frac{\sum xy - n\bar{x}\bar{y}}{\sqrt{\sum x^2 - n(\bar{x})^2} \sqrt{\sum y^2 - n(\bar{y})^2}} \\ r &= \frac{18750.55 - 5 \times 20.184 \times 184.2}{\sqrt{2569.32 - 5 \times (20.184)^2} \sqrt{177103 - 5 \times (184.2)^2}} \\ r &= 0.08\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Determination } (r^2) &= (0.08)^2 \\ &= 0.0064\end{aligned}$$

$$\begin{aligned}\text{Probable Error (PE)} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1-0.0064}{\sqrt{5}} \\ &= 0.2997\end{aligned}$$

Appendix- VIII

Questionnaire for Primary Research

Dear Sir/Madam,

I humbly want to inform that present research is being carried out as part of the Masters Degree dissertation of which this questionnaire is part. I therefore ask you to be so kind as to complete the questionnaire and take this opportunity to thank you for dedicating us your time. By filling in this questionnaire, you will have contributed to complete my research entitled, "Impact of Dividend Policy on market price of stock."

Your information will be kept much confidential and I request to all respondent to be unbiased on their opinion.

Name:

Department:

Designation:

Questions

- 1) How much the employees committed and devoted towards their duties?
 - (a) Committed
 - (b) I can't say
 - (c) Uncommitted

- 2) Do the company's share holders /owners satisfy with the present dividend payment policy?
 - (a) Satisfied
 - (b) I can't say
 - (c) Unsatisfied

- 3) Current dividend policy helps to improve the liquidity position of the company?
 - (a) Agree
 - (b) I can't say
 - (c) Disagree
- 4) Providing stock dividend is effective for both company and Share holders.
 - (a) Agree
 - (b) I can't say
 - (c) Disagree
- 5) Government policy and political situation affect the company's dividend policy.
 - (a) Agree
 - (b) I can't say
 - (c) Disagree
- 6) Current DPS position of our company is satisfactory.
 - (a) Agree
 - (b) I can't say
 - (c) Disagree
- 7) Current dividend policy must be change in future.
 - (a) Agree
 - (b) I can't say
 - (c) Disagree
- 8) Company will increase its position on stock market through this dividend policy.
 - (a) Agree
 - (b) I can't say
 - (c) Disagree
- 9) The selected companies were valued their stock fairly.
 - (a) Agree
 - (b) I can't say
 - (c) Disagree

